Uniting technology, inspiring people

AdEPT Technology Group plc Annual report and accounts 2021

AdEPT

It starts with a connection

We currently liberate thousands of organisations across the UK through the power of unified technology.

Discover more at adept.co.uk

Our business model

AdEPT operates a highly cash-generative business model, which is focused on delivering resilient, unified IT and communications solutions to customers across the UK backed up by a high service level.

Discover more on page 12

Investment case

AdEPT is focused on growing profitability and maintaining cash flow conversion, which is used to either reduce net borrowings, return value to shareholders through dividends and/or fund suitable earnings-enhancing acquisitions.

Discover more on page 2

Strategic report

Corporate governance

Financial statements

Highlights

Financial highlights

> Revenue of £57.9m at 94% of FY20 (2020: £61.7m)

> Gross profit of £27.6m at 91% of FY20 (2020: £30.2m)

> Underlying EBITDA of £9.8m at 84% of FY20 (2020: £11.7m)[1]

> Underlying EBITDA margin of 17% (2020: 19%)

> Adjusted fully diluted earnings per share of 22.4p (2020: 28.0p)[2]

> Cash generation from operating activities after tax £7.4m (2020: £7.6m)

> Cash at year end £13.2m (2020: £11.8m)

> Conversion of reported EBITDA to operating cash flow before tax of 89% (2020: 82%)

> Year-end net senior debt reduced to £25.6m (2020: £27.9m)[3]

> Capital expenditure remains at 2% of revenue (2020: 2%)

Operational highlights

> Significant progress on Project Fusion, the creation of ONE AdEPT – a single set of financial and operational systems providing the Group with a scalable platform for growth

> Revenue from public sector and healthcare has increased to 55.5% (2020: 44.7%)

> Cloud centric strategic services revenues up 9% year on year to £25.1m (2020: £23.1m)

> Traditional telephony as a percentage of revenues reduced to 19% (2020: 21%)

> Managed services accounted for 81% of total revenue and EBITDA (2020: 79%)

> New enlarged £50m senior debt facility with NatWest and Bank of Ireland

Post-year-end highlights

> Strategic acquisition of Datrix Limited ('Datrix') in April 2021, a business focused on enterprise networks and security which enhances the Group's core capabilities and strengthens its presence in the NHS vertical market – integration on track

> Firm plans for Datrix to transition to the ONE AdEPT platform by September 2021

> Brings new strategic partnerships with Cato, Extreme Networks and Palo Alto that address key market requirements

1. Defined as operating profit after adding back depreciation, amortisation, acquisition fees, restructuring costs, adjustment to deferred consideration and share-based payment charges.
2. Profit after tax adding back amortisation, share option charges, the taxation deduction on purchased customer contracts, deferred tax credits on amortisation charges, restructuring and acquisition costs.
3. Net senior debt is defined as cash and cash equivalents less short-term and long-term senior bank borrowings and prepaid bank fees.

Revenue

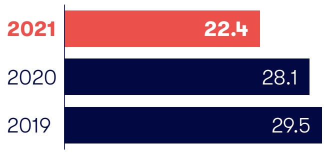
£57.9m

Underlying EBITDA

£9.8m

Adjusted earnings per share

22.4p



Net senior debt

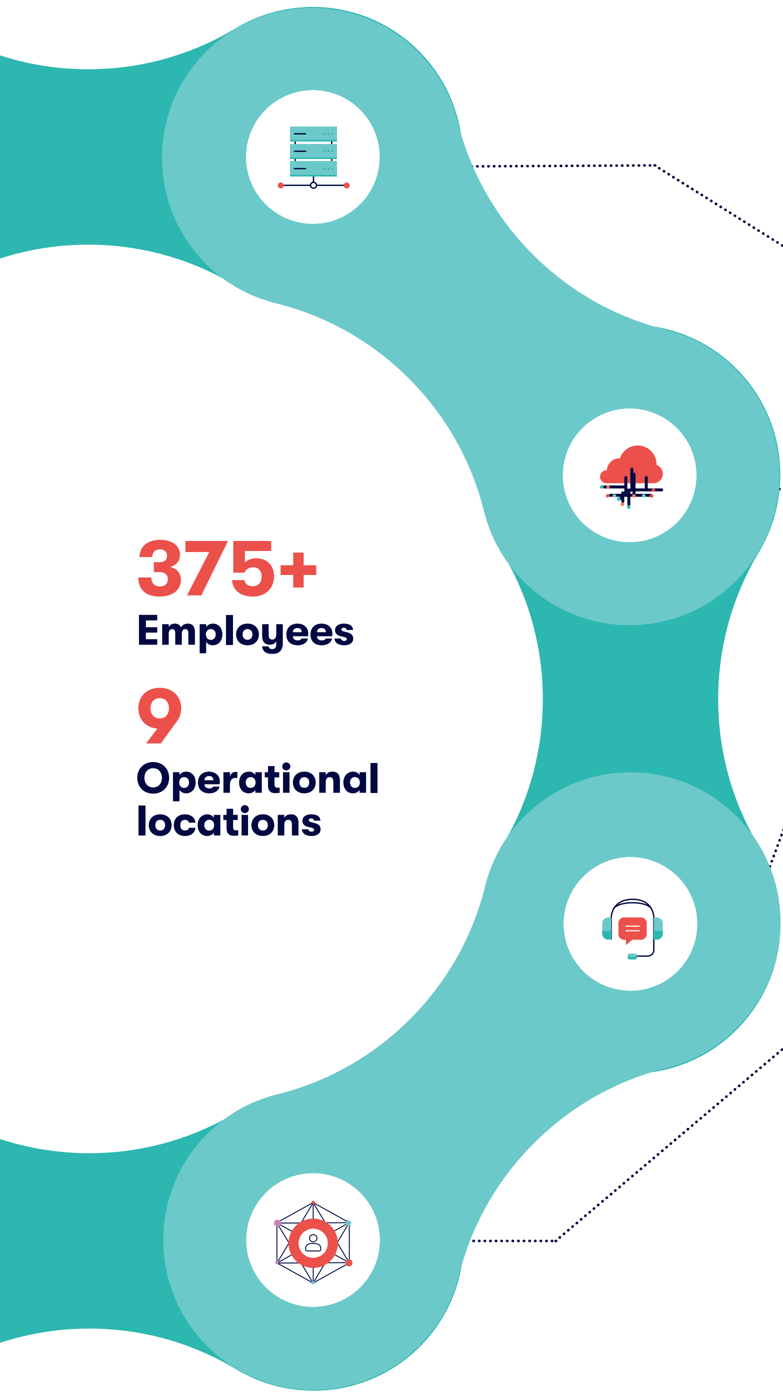
£25.5m

Our seven key strengths

1. **Well-balanced revenue from public and commercial customer base**
2. **Strong supply chain relationships with world-class partners**
3. **Award-winning UK technology solutions provider**
4. **Ideally positioned for the convergence between IT and communications**
5. **High (75%) proportion of recurring revenues, providing stable financials**
6. **High proportion of profit to operating cash flow conversion**
7. **Capital expenditure light business model**

The power of four

We are one of the UK's leading independent providers of managed services for IT, unified communications, connectivity, voice and cloud services.



375+
Employees

9
Operational locations

IT services

AdEPT has a team of over 200 IT and technical specialists to support our customers. The highly accredited IT team is responsible for designing customer enabling and cost effective solutions, providing high service levels in resilient cloud back-up, remote IT support, hosted email, antivirus and cyber security.

Education

AdEPT has been supplying ICT solutions to schools and the wider education sector for 30 years. Whether it is web or email filtering, texting services, CCTV or VoIP phone systems, AdEPT produces and supports a whole host of dependable services for schools. Our team of 120 staff designs, creates and supports over 50 products and services specifically geared for the UK education sector.

Communications

AdEPT provides unified communications services to over 15,000 customers. Whether you have 10 staff or 10,000, we can unify your voice and data communications to help you focus on what you do best. Whether you are a single site or a national branch network, we have a solution for you backed up with an award-winning customer service team.

Cyber security

IT security remains one of the most important considerations for any organisation today. Security covers all the processes and mechanisms by which computer-based equipment, information and services are protected from unintended or unauthorised access, change or destruction and from unplanned events and natural disasters. Through the systems we deploy, from firewalls and end point security to bring your own device (BYOD) and cloud security, whether you need to monitor the security of your existing network infrastructure, audit or update your security policies or resolve specific threats, AdEPT can help.

Chairman's statement

Continued managed service and IT expansion

Ian Fishwick
Chairman

"A resilient financial performance and considerable strategic achievement under highly challenging trading conditions. The team and the Board are confident that investment in ICT will remain a key focus for our customers, as they look to exploit the opportunities and efficiencies that our solutions unlock."

It is with great pleasure that I announce our annual results.

For the year ended 31 March 2021 ('FY21') AdEPT Technology Group plc ('AdEPT', the 'Company' or together with its subsidiaries, the 'Group') delivered another strong trading performance with:

Financial highlights

- Revenue of £57.9m at 94% of FY20 (2020: £61.7m)
- Gross profit of £27.6m at 91% of FY20 (2020: £30.2m)
- Underlying EBITDA of £9.8m at 84% of FY20 (2020: £11.7m)[1]
- Underlying EBITDA margin of 17% (2020: 19%)
- Adjusted fully diluted earnings per share of 22.4p (2020: 28.0p)[2]
- Cash generation from operating activities after tax £7.4m (2020: £7.6m)
- Cash at year-end £13.2m (2020: £11.8m)
- Conversion of reported EBITDA to operating cash flow before tax of 89% (2020: 82%)
- Year-end net senior debt reduced to £25.6m (2020: £27.9m)[3]
- Capital expenditure remains at 2% of revenue (2020: 2%)

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3. Net senior debt is defined as cash and cash equivalents less short-term and long-term senior bank borrowings and prepaid bank fees.

Operational highlights

- Significant progress on Project Fusion, the creation of ONE AdEPT – a single set of financial and operational systems providing the Group with a scalable platform for growth
- Revenue from public sector and healthcare has increased to 55.5% (2020: 44.7%)
- Cloud centric strategic services revenues up 9% year on year to £25.1m (2020: £23.1m)
- Traditional telephony as a percentage of revenues reduced to 19% (2020: 21%)
- Managed services accounted for 81% of total revenue and EBITDA (2020: 79%)
- New enlarged £50m senior debt facility with NatWest and Bank of Ireland

Post-year-end highlights

- Strategic acquisition of Datrix Limited ('Datrix') in April 2021, a business focused on enterprise networks and security which enhances the Group's core capabilities and strengthens its presence in the NHS vertical market – integration on track
- Firm plans for Datrix to transition to the ONE AdEPT platform by September 2021
- Brings new strategic partnerships with Cato, Extreme Networks and Palo Alto that address key market requirements

I am pleased to present AdEPT Technology Group's results for the year ended 31 March 2021, which show a resilient financial performance and considerable strategic achievement under highly challenging trading conditions.

Our strong presence in the public sector and limited exposure to the sectors most impacted by the pandemic, such as travel, high street retail and leisure, have shielded AdEPT from the extreme impacts of the lockdown restrictions. The Group was, however, affected by a reduction in demand for support services and in the sale of technology products, as business closures during lockdown restricted on-site access and customers swapped significant infrastructure projects for more tactical purchases, including laptops and tablets. Customer confidence, which returned in Q4 FY21, is now growing again, as the vaccine programme rolls out and restrictions lift. Attention is moving to strategic solutions and the Group is securing new projects in this market.

Despite the many challenges, AdEPT continued to deliver on its strategy in FY21, adding new framework agreements, a key route to market; extending its partnerships, completing the bank facility refinancing with new senior debt partners; and, post the year end, completing a major acquisition, Datrix, utilising our new, larger, banking facility agreed in April 2021. Our cloud centric services portfolio, which is at the heart of our growth ambitions, continued to grow during the year. We are particularly proud of the support we gave to over 500 schools, helping them migrate to remote learning, and to more than 400 doctors' surgeries, as they switched to remote practice.

Our resilient performance was achieved through swift management action, the agility of our business operations, and the commitment and hard work of the entire AdEPT team.

The pandemic has significantly accelerated changes to the way we work, and AdEPT is in an excellent position to capitalise on the growth opportunities this presents. Our focus on unifying technology and bringing together and integrating communications, technology platforms and networking for our clients puts us at the heart of a converging ICT world. The new financial year has started well for the Group with a strong pipeline of organic growth opportunities, arising from a need for long-term strategic IT solutions, and an ongoing focus on acquisition opportunities to expand the Group's core strengths and consolidate the market further. Our growth ambitions are supported by the Group's renewed banking facility completed in March 2021 and ONE AdEPT, which give us the necessary financial resources and integrated infrastructure to build a Group of breadth and scale.

Our mission remains 'Uniting Technology, Inspiring People'. We are hugely optimistic for the future of cloud centric technologies and in turn remain confident in the prospects for AdEPT in the year ahead and beyond.

Long-term vision and strategy

The subject of ICT in all its guises, from unified communications empowering businesses to operate from bedrooms and kitchens and high performance networks transporting huge amounts of data, to the acceleration of cloud adoption, placing business applications where they can be easily accessed, has been key to allowing businesses to trade and in some cases flourish during the pandemic.

This is the world in which AdEPT operates. AdEPT supports thousands of companies and millions of people with critical aspects of their day-to-day lives.

Clear mission

Our mission is 'Uniting Technology, Inspiring People'. We will help our customers navigate the storm of ICT innovation, to help them make the best use of technology, so they can communicate, operate and transform successfully. We will do this by continuing to learn, adapt, and listen, working with great partners to deliver flawless solutions.

Our aim is to become the industry benchmark and a business with which organisations and partners aspire to work, all powered by a unified platform that makes us both efficient and effective.

Market consolidator

We remain focused on our goal to grow both organically and by acquisition, leveraging the Group's banking facilities which are supported by a strong balance sheet and high cash generation. By consolidating a fragmented market, through complementary acquisitions with strong levels of recurring revenue and margin, we will bring enhanced capability to customers and strengthen our presence in key vertical markets.

Many opportunities present themselves in our markets and we will continue to select and examine these carefully against our clearly defined target profile of: strong recurring margins, cloud centric product focus, operating in an appropriate geography, adding relevant capability, consolidating a vertical market or bringing new strategic product partnerships.

The acquisition of Datrix in April 2021 is an excellent example of meeting the defined target profile by enhancing the Group's capabilities and increasing its market share in a key cloud centric growth market and in complementary verticals. The acquisition has provided instant scale, expanding the Group's portfolio and creating core competencies in the latest secure cloud technology, SD-WAN and related cyber security products. Datrix has a strong customer base which is well aligned with AdEPT's vertical market focus. The Datrix customer base strengthens the public sector and healthcare presence of the Group as it includes NHS Trusts, care homes, local authorities and universities. Datrix is a highly respected partner of Extreme Networks, a provider of end-to-end networking solutions for large enterprises, holding the ultimate Black Diamond Specialized Partner status. Datrix is a Premium Partner with Cato Networks, which provides converged SD-WAN and network security solutions delivered as a cloud platform, and is also a Gold Partner of Palo Alto Networks, a global leader in cyber security.

Chairman's statement continued

Long-term vision and strategy continued

Focus on service excellence

We will continue to invest carefully in our own capability, funding Project Fusion, which is delivering our ONE AdEPT programme, a suite of operational systems for use by all employees that improves efficiency, ensures the delivery of increasingly high levels of customer service and provides operational insight. We will also invest further in AdEPT Nebula, the hybrid cloud platform now used by over 635 of our clients.

Whilst the Group continues to generate revenues from traditional telephony, such as call billing and telephone line provision, this is a diminishing aspect of our business, as we encourage our customers to transition from copper-wire technologies. AdEPT's portfolio is now firmly aligned to cloud centric solutions and this is underpinned by a range of class-leading partners. As a result, we are well placed to take advantage of the accelerated growth in advanced cloud-based solutions, as businesses switch to more flexible working patterns and increased homeworking.

People and our commitment to diversity

Our growth is dependent on the commitment of our entire team and good employee communication and engagement are vital. We conduct an Employee Engagement Survey annually and use the feedback gathered to refresh our people strategy. We fully appreciate that we will only succeed if everyone in the Group is aligned to our goals and objectives.

The Group is committed to ensuring diversity, equity and inclusivity. We have a team from diverse backgrounds and genders and will continue to foster balance and promote equal opportunities. This mix of skillsets, experience and backgrounds delivers a better outcome for all concerned.

We are implementing a new HR platform, as part of our Project Fusion initiative, to ensure we are able to measure key aspects of our policies.

We deliberately did not reduce our staffing levels during the pandemic as we have highly skilled, sought-after staff, and we could see that revenue reduction was temporary. Whilst our profits took a slight hit in the short term, this decision places us in a great position to capitalise on the growth opportunities post-lockdown.

Environmental, social and governance (ESG)

We are committed to having a positive impact on society, the environment and our stakeholders. Whilst this is an area in which we are already active, our intention is to report progress in a more structured manner. In the coming months, we will adopt one or more of the various frameworks that continue to emerge through the growing emphasis placed on ESG by investors, employees, the Government and customers.

This will cover the:

- impact of our business on our environment;
- diversity, equity and inclusion;
- board independence, ethics and leadership; and
- risk management processes.

Team

The AdEPT management team evolved during the year with the appointment of a Group chief technology officer, Clive Bryden, who was promoted internally. This new role reflects the increasing importance the Group places on the AdEPT Nebula solution and the customer facing technologies this facilitates.

The formation of the AdEPT consulting team, led by the chief commercial officer, Tim Scott, is another example of how we are evolving as a business. It brings together our cloud enablement skills and our security capability. This team has recently been strengthened with the recruitment of a product manager, focused on increasing our presence in the Microsoft marketplace given the rapid emergence of Microsoft Teams and other Microsoft products during the lockdown.

Dividend

As previously communicated, given the impact of the pandemic; the Group's focus on cash preservation; and our use of the UK Coronavirus Job Retention Scheme ('furlough') in the year under review, the Board considers that a dividend payment in respect of FY21 would be inappropriate.

It should be noted that, during this same period, payments of bonuses to the senior management team were suspended in line with good corporate practice during this pandemic.

As the new financial year progresses, the Board will review the Group's dividend policy and communicate any changes in due course.

Summary and outlook

The new financial year has started well, building on the momentum which returned in the last quarter of FY21, with a number of new wins and overall a positive performance across the business. The team and the Board are confident that investment in ICT will remain a key focus for our customers, as they look to capitalise on the opportunities and efficiencies that our solutions unlock. We have a strong belief that the strategies which we are pursuing will serve to increase our position in this marketplace.

I would like to thank all our stakeholders, and in particular our people, for their exceptional efforts throughout a challenging year, which has been much appreciated by the Board.

Ian Fishwick
Chairman
23 July 2021

Delivering progress against strategic ambitions

Phil Race
Chief executive officer

Overview

AdEPT has proven its resilience and agility in the year under review, rising to meet the many challenges presented by the pandemic and its associated lockdowns, and I am pleased to provide shareholders with a full report on the Group's performance and progress in this unparalleled trading period.

Our ambition is to provide exceptional customer service, through our profound knowledge of technology and underpinned by our comprehensive operational systems. During FY21 we achieved a Net Promoter Score of 83% from our significant clients; this is incredibly positive feedback and, when set against the COVID-19 backdrop and an unprecedented surge in customer demand for help, advice and support, this is an outstanding achievement.

I cannot praise our team highly enough for their professionalism and willingness to deliver under extreme pressure.

As an exceptional example of our impact over the course of the pandemic, AdEPT helped over 500 schools move to the cloud on both Microsoft 365 and Google G Suite platforms and became a leading player in the Department for Education initiative to facilitate remote education.

As a result of our team's considerable efforts, we have been able to further deliver our strategic objectives, despite the circumstances.

Project Fusion is now enabling all of the Group divisions to operate from a single set of financial and operational systems. This platform, delivering 'ONE AdEPT', gives us the infrastructure on which to build a business of scale, by enabling the fast and efficient integration of acquisitions, providing business insight and enhancing the Group's cross-selling capabilities.

In addition, we have added new services, new frameworks and new channel partners, and, shortly after the year end, a major acquisition, Datrix, all of which significantly expand the Group's capabilities and potential.

The new financial year ending 31 March 2022 ('FY22') has started well, with the momentum achieved in H2 FY21 continuing. This positive return to more normal trading conditions, combined with the progress we have made with the Group strategically over the course of the last 18 months, gives us confidence for the year ahead and makes us excited about the long-term opportunity for AdEPT.

Results

The Group delivered a resilient performance in FY21 under challenging circumstances, generating revenue of £57.9m (2020: £61.7m) and gross profit of £27.7m (2020: £29.4m). Underlying EBITDA was £9.8m (2020: £11.7m). Adjusted profit before taxation was £6.2m (2020: £7.7m). Adjusted fully diluted earnings per share was 22.4p (2020: 28.0p).

The Group's balance sheet remains strong with excellent operating cash generation. Conversion of reported EBITDA to operating cash flow before tax was strong at 89% (2020: 82%). Cash generation from operating activities after tax was broadly unchanged from FY20 at £7.4m (2020: £7.6m). Cash at the year end was £13.2m (F2020: £11.8m). Net senior debt reduced to £25.6m at the year end (2020: £27.9m).

Business review

Achieving revenue at 93.8% of FY20's level and gross profit at 94.2% of FY20 at £27.7m (FY20: £29.4m) in a year of unprecedented challenges reflects the resilience of our business and the important role AdEPT plays in supporting its clients.

The Group's underlying EBITDA performance at 83.9% of FY20 at £9.8m (FY20: £11.7m) results from our strategy to retain expertise within the business, throughout the early stages of the pandemic and its associated lockdowns, on the anticipation of a swift return in demand. Accordingly, our costs did not decline directly in line with revenue. This strategy has proven sensible given the H2 trends, with growth in professional services (up 20% in H2 vs H1) and cloud centric strategic services (up 7% in H2 vs H1). With team utilisation in Q4 recovering substantially, there was no requirement for the Coronavirus Job Retention Scheme ('furlough'), in the second half of the year.

AdEPT also elected to top up the salaries of those employees impacted by furlough in the first half of the year from the 80% support, provided by the Government, to full salary levels. This decision was extremely well received by those impacted and contributed to the employee Net Promoter Score of 85%. To mitigate the impact of the pandemic, the Group took prudent actions to reduce costs, namely a reduction in recruitment; a focus on expenses; a withdrawal of executive team bonus; and a pay freeze.

Chief executive officer's statement continued

The story of the year quarter by quarter

To aid understanding of the impact of the rapidly changing trading dynamics on the Group over the course of the year, driven by the spread of the pandemic and Government lockdowns, we have reviewed our performance on a quarterly basis to provide context.

Q1 and Q2 FY21: The immediate impact of COVID-19

At the outset of the year the Group's service operations faced a significant increase in demand, as 'Lockdown 1.0' forced customers to shift rapidly to working from home. This created a surge in requests for help. Call volumes to our support desks rose by over 85% during this period, demonstrating the critical role AdEPT plays supporting customers with their ICT.

This increased demand was spread across all parts of the AdEPT business. In the public sector, schools needed to educate virtually and doctors were required to diagnose remotely, whilst, in the commercial sector, businesses needed help setting up effective home office solutions for their staff.

Through this period, we also provided enhanced network capability to many NHS Trusts and hospitals with the help of our partners, such as Convergence Group, Virgin and BT. Within the education sector, AdEPT helped approximately 3,300 schools and over 100 universities and colleges transition successfully to remote schooling.

We assisted many of our commercial customers in their transition to homeworking, fulfilling a surge in demand for laptops, networks, new communications platforms to support cloud centric collaboration, mobile telephony and systems which people could access remotely. In addition, we advised on, and implemented, a number of cyber security solutions to counter any threats brought about by the transition to homeworking.

During this time we saw a significant decline in call revenues as organisations moved to IP-based messaging such as Microsoft Teams or Zoom as their staff did not use office-based telephony systems. The overall decline in traditional telephony was therefore greater than anticipated pre-COVID-19, at 15.2% year on year against our pre-COVID expectation of 10%.

In contrast, our on-site teams, whilst classified as key workers, were unable to work as many of our customers' offices were closed. As a result, we took the necessary decision to furlough 70 staff, mainly school technicians who were unable to access site.

With customer conferences cancelled, and a marketplace rightly focusing on the impact of COVID-19, our ability to win new clients was hampered, impacting new business, which we would have anticipated feeding into Q3 performance.

We also had to make the necessary changes within our own business during this period of uncertainty. We acted quickly to support our staff, manage liquidity and evaluate likely potential scenarios, all with the aim of protecting our stakeholders. We chose to top up the Government's furlough payments back to full salary, as we felt strongly that none of our employees should suffer financially as a result of furlough.

Operationally, we proved immensely resilient, a benefit of our investment in Project Fusion in 2019. Every AdEPT employee was able to exploit our recently implemented Microsoft 365, Teams and Avaya Aura communications infrastructure and smoothly transition to homeworking.

We constantly kept in touch with our people throughout this difficult period, communicating frequently and effectively to ensure everyone understood how Government policy was impacting working practices. We provided homeworking equipment, undertook regular training events and even held virtual cocktail evenings to keep spirits up! We also provided access to an anonymous counselling service to help anyone struggling with the changes forced upon them.

The positive feedback that we received from clients during this time about our team, their dedication and their adaptability was truly humbling.

Q3 FY21: A tentative recovery

As the country exited the first national lockdown at the end of the summer 2020, optimism began to return with the belief that the pandemic was on the wane. Sales activity picked up and our engineering teams were able to attend site more readily. AdEPT and our clients had become familiar with the new working practices resulting from COVID-19, and there was sense of more normality as the Government eased restrictions.

Frustratingly, the reintroduction of restrictions in November due to the 'second wave' dampened this recovery, but we continued to help and support our customers throughout. Our work in the education sector was a highlight, as the AdEPT team provided further support to schools, enabling them to teach remotely, and supplying equipment to pupils to enable them to study at home.

With the support of our strategic partner, London Grid for Learning (LGfL), AdEPT completed the next phase of a development called eAdmissions. This empowers 34 local authorities to make 240,000 offers of school places to parents annually – facilitated by approximately half a million SMS text messages and mobile app push messages – all in support of the overall process.

Our sales team performed better than anticipated during the second wave and our customer base remained resilient with cash collection improving over this period.

In support of our strategic goal to constantly refine and refresh our business proposition, we onboarded a new partner in Q3, 8x8. As a leading provider of unified communications solutions, 8x8 is an excellent addition to our successful portfolio of voice solutions, which sits neatly alongside Avaya and Ericsson LG.

We were also awarded Platinum Partner status by Gamma during this quarter, which brings benefits to both AdEPT and our customers in terms of marketing assistance, access to Gamma technicians and improved commercial support.

Furthermore, we launched our AdEPT Consulting initiative, to help customers transition to more permanent post-COVID-19 strategic IT solutions from the tactical 'quick fixes' deployed rapidly during the early days of COVID-19.

Q4 FY21: Momentum returns
The Group delivered a resilient performance in Q4, gaining momentum across the quarter despite the ongoing challenges of the pandemic. All our furloughed staff returned to work as a result of sustained customer demand and sales activity across the Group improved in Q4. Our support teams returned to some form of normality and our engineers and remote technicians were fully able to return to site.

The momentum felt in H2 FY21 has continued into Q1 of this financial year with sales bookings in line with our plans across all parts of the business, as confidence in the future returns.

As an example of our ability to win new clients, AdEPT is pleased to report that it has been chosen to provide a full IT solution for the Trades Union Congress (TUC). AdEPT Nebula is at the heart of the solution providing a private cloud and connectivity platform, wrapped in a managed service.

This allows the TUC to have a hybrid, hosted and cloud enabled service and allows the TUC to mix and match carriers to get the best connectivity across its offices. AdEPT is providing Microsoft Office 365 and Teams for communication, all supported by our proactive support team based out of Dorking.

Our cloud centric strategic services is a portfolio that includes the AdEPT Nebula proposition, hosting services, hybrid and public cloud, Voice over IP (VoIP) and professional services. Our strategic focus on this market is delivering rewards with an 8.6% year-on-year increase in revenues (FY21: £25.2m vs FY20: £23.1m) and with H2 up 7.2% over H1. Furthermore, within this segment professional services is a highlight. This is due to our success with the School Cloud Enablement activity and the success of AdEPT Consulting, demonstrated by a £1.2m year-on-year increase to £4.5m (FY20: £3.3m). Furthermore, professional services revenues were up 20% H2 over H1 demonstrating clear momentum.

In addition revenues from VoIP increased by 11% year on year to £2.7m (FY20: £2.4m) which is a result of our success with the new 8x8 proposition (17 new clients secured since signing 8x8 as a new partner) and our activity to migrate customers to new IP-based solutions.

A new banking facility and improvement in the cash position of AdEPT
As previously announced on 7 April 2021, we secured a new enlarged banking facility to support the Group's investment in growth and to finance its strategy to consolidate the fragmented market through acquisition. The agreement is for a three year term, extendable by one year, and provides the Company with up to £70m senior debt, comprising a £35m revolving credit facility, a £15m term loan and a £20m accordion facility. This new facility replaces the £40m revolving credit facility, which was due to expire in February 2022. It is on the same commercial terms as the facility it replaces, supported by the Group's strong balance sheet and cash generation.

The Group's strong cash flow generation continued in Q4 with senior net debt down from £27.9m to £25.5m in a year in which we paid the final consideration of £1.8m in relation to the Advanced Computer Systems Group ('ACS Group') acquisition. This results in an EBITDA to senior net debt ratio of 2.6x (FY20: 2.4x). This is in line with management expectations. This includes Q4 outflows for the repayment of the deferred Q1 VAT liability.

Further, the Group remains a strong generator of cash with EBITDA to cash conversion at 89% in FY21 (82% in FY20).

ONE AdEPT – benefiting from one integrated system
Our unswerving focus on a) providing the best service, b) having an efficient operation and c) having real-time operational insight across the business is the reason we are undertaking Project Fusion in a drive to achieve 'ONE AdEPT'. ONE AdEPT uses a suite of commercial off-the-shelf solutions that is now utilised by every division within the business and provides the AdEPT leadership and staff with real-time information on performance, trends and operational bottlenecks.

ONE AdEPT is at the core of our plans to build a business of scale through acquisition and market consolidation. It enables newly acquired businesses to be quickly and efficiently integrated and to benefit from the Group, as well as allowing the rapid delivery of synergies and operational insight.

During the course of FY22 the recently acquired Datrix business will be transitioned to ONE AdEPT.

The market we serve
It is well documented that the global pandemic has thrust the ICT market in which we operate into the spotlight; as the world switched to communicating virtually through Zoom and Microsoft Teams, the shift away from traditional telephony solutions to those provided through technology has accelerated at speed. There is a dramatic trend to place applications on the cloud whether that be public, private or a mix of the two ('hybrid'), and this change needs to be executed in a secure manner on highly performant and resilient networks.

By being agile and constantly evolving our offering and skills, we have remained aligned with fast growing markets such as cloud services, unified communications and cyber security, and are able to deliver the dynamic technologies our customers need.

Our success will only continue if we continuously adapt. As a tangible example, we have enhanced our portfolio of strong partnerships in FY21 with the onboarding of 8x8. Since becoming a partner with 8x8, AdEPT has secured 17 new customers.

Investment for growth
There is an increasing demand for 'hybrid cloud' services, where customers purchase public cloud solutions alongside private cloud owned and hosted applications. AdEPT is meeting this demand through its investment in AdEPT Nebula.

Through a single secure connection a business can get access to services such as hosted applications, cloud telephony, Microsoft solutions, public or private cloud services (or a mix called hybrid cloud), carrier class connectivity and much more, all within a secure and managed service.

In the year under review, we invested 2% of revenues in capex, with Nebula forming part of this spend. AdEPT Nebula continues to increase in capacity and capability as a platform, and is now supporting over 635 customers.

Chief executive officer's statement continued

Channels to market

In addition to direct engagement with customers and prospects with our own sales teams, AdEPT is also present on multiple market frameworks. These allow buyers to tender for services with confidence and engage with pre-screened companies which have demonstrated expertise in a particular field, utilising contracts that are 'off the shelf'.

We are present on nine of these frameworks and have added the following to our roster over recent weeks:

Virgin Media Business (VMB) – VMB has chosen AdEPT to be its Avaya partner for three years. This means that any opportunity to sell Avaya products and services, unearthed by the extensive VMB direct sales teams (across both public sector and enterprise), will be fulfilled and supported by AdEPT. Effectively we are now VMB's exclusive Avaya specialist team.

The Foreign, Commonwealth and Development Office – AdEPT is the first company to be placed on the Foreign, Commonwealth and Development Office framework for connectivity. This framework will create significant opportunities for AdEPT as a potential provider, to enhance the communications and network infrastructure of this important Central Government department.

Crescent Purchasing Consortium (CPC) – AdEPT has secured a place on the CPC ICT framework for education. This is a framework for the supply and delivery of ICT hardware, peripherals and support services. The CPC has over 7,000 education customers which buy through its framework.

Objectives for FY22

In the context of our vision, the changes in the market we serve and the impact of the pandemic globally, we have set ourselves a number of targets for the coming months to ensure we grow organically:

> integrate Datrix effectively, to ensure that we obtain the benefit of Project Fusion from all elements of our business;

> capture opportunity, by helping our customers benefit from the full portfolio of AdEPT offerings, including the enhanced offerings brought by the Datrix team;

> market effectively to key sectors, ensuring our offerings are fine tuned to reflect the specific needs of our target markets;

> invest wisely, so that our AdEPT intellectual property, be that know-how, AdEPT Nebula or the Education Suite, all capture greater market share;

> manage our portfolio, by working with our existing (and potentially new) partners to ensure that market needs are matched carefully to our partner offerings and high growth propositions; and

> explore further accretive acquisition opportunities, to continue our consolidation journey.

The organisations acquired by AdEPT will benefit from a broader range of solutions, a deeper skill set that will improve the quality of service they receive, and an operating platform that enhances the service they provide. Investors, meanwhile, should benefit from greater revenue generation through cross and up-selling activity, and synergies achieved from further consolidation of our market.

The market for acquisitions remains highly fragmented, with over 3,000 potential ICT company targets across the UK. AdEPT has a proven track record of identifying suitable acquisitions, purchasing and then integrating them successfully, to increase shareholder value, and we will seek to acquire in line with this strategy during the course of this year.

Post-year-end activity

We were delighted to be able to put our new bank facility to work with the transformational acquisition of Datrix in April 2021.

This acquisition signals a return to AdEPT's strategic pillar to consolidate the market, purchasing strategically significant businesses that are beneficial to the Group, and demonstrates the AdEPT core competence in consolidating markets and purchasing strategically significant businesses that are beneficial to the Group.

Datrix designs, delivers and manages end-to-end enterprise solutions for large, complex, multi-site, mission-critical environments. Approximately 63% of Datrix revenue and gross margin is generated from recurring services, with 63% of total revenue generated from public sector customers.

> Datrix provides instant scale in the growing advanced cloud-based networking market, expanding the Group's portfolio of core competencies to include the latest technology, SD-WAN.

> With 63% of revenues generated from complementary customers in the public sector, Datrix strengthens the Group's position on Local and Central Government supplier frameworks and its presence in key vertical markets, particularly the NHS.

> Datrix enhances AdEPT's cloud product portfolio, bringing additional highly complementary, market-leading, Gartner Magic Quadrant products to the Group, from significant new partner relationships.

> The experienced senior management team, which has transformed the business since joining Datrix in 2019, is being retained by AdEPT and incentivised to continue delivering growth.

The integration of Datrix is going as planned and firm plans are in place to add the business to the ONE AdEPT platform in September 2021. We see a number of opportunities for both Datrix and AdEPT to benefit from each other's capabilities.

Current trading and outlook

While the pandemic temporarily interrupted the trajectory of our growth, the Board is pleased with the progress achieved under challenging circumstances. We are confident that the opportunities for the Group remain strong, in a vibrant technology market, with demand for effective ICT services at an all-time high.

The momentum gained by the Group in Q4 FY21 has continued into Q1 FY22 with sales and margins in the new financial year to date firmly in line with market expectations. Our focus remains on the delivery of strong organic growth, whist seeking further opportunities to consolidate the fragmented market, through complementary acquisitions which generate strong levels of recurring revenue and margin. Our new integrated operating system, ONE AdEPT, lies at the heart of our plans, providing the Group with a scalable platform for growth.

The business is in great shape and the Board views the prospects for the Group in the year ahead and beyond with confidence.

Phil Race
Chief executive officer
23 July 2021

Project Fusion – Creating ‘ONE AdEPT’

Over the last twelve months the AdEPT team has continued to work hard on the ‘ONE AdEPT’ project, christened ‘Project Fusion’ to bring the AdEPT Group together and provide a resilient common operating platform across the entire Group. Despite the challenges of remote working and lockdown, during the year three further operating divisions have been migrated to the centralised CRM and finance platforms which has been delivered by our team of dedicated individuals and other employees across the Group.

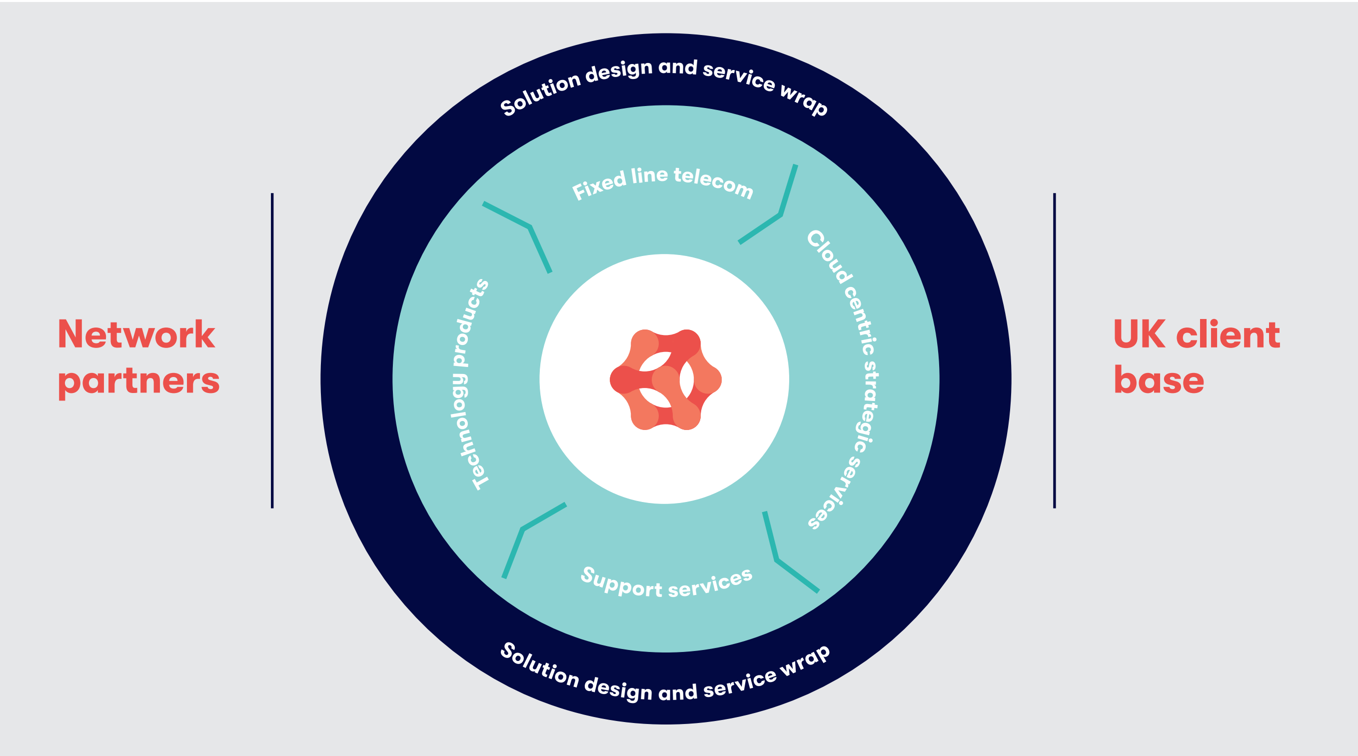
During the last twelve months we have made continued progress including initiatives in relation to sales, marketing, systems, finance and branding. Post-year end, in April 2021, the Education division was migrated into Project Fusion, which is already providing increased efficiency and consistency of reporting. Currently eight of the nine operational sites are fully integrated and live within the Project Fusion platform, with the team now focused on integrating Datrix into the platform.

Project Fusion encompassed the implementation of Microsoft 365, Microsoft Teams and the Avaya IX telephony solution. This proved to be an invaluable initiative during the COVID-19 pandemic, as it enabled the whole employee base to transition to homeworking on the Group-wide infrastructure seamlessly when the lockdown commenced in 2020.

We have continued to have success with our strategic platform – ‘AdEPT Nebula’ – which now underpins services for over 350 customers. At its core AdEPT Nebula is a highly resilient MPLS network (Nebula Network) and hosting capability centred on the Group’s owned data centre in Orpington. AdEPT Nebula empowers the Group to provide clients with a seamless cloud hosting capability (Nebula Cloud), hybrid cloud platforms (Nebula Apps), unified communications (Nebula Voice) and secure managed services (Nebula Back Up and Nebula Security).

Business model

Uniting technology, inspiring people



Network partners

AdEPT has established relationships with all of the major UK network operators and communications and IT suppliers, working with tier-1 partners to develop products and solutions which meet the ever-changing needs of customers.

AdEPT's focus with its partners is to develop and provide cost effective solutions with enhanced features and resilience. AdEPT selects its partners on the basis of technical and financial stability, in order to manage the supply risk associated with a business critical supply.

AdEPT solution design and service wrap

AdEPT combines multi-product solutions from a number of communications and IT partners to provide bespoke solutions tailored to meet the specific requirements of customers.

AdEPT provides a single invoice solution for customers combined with award-winning customer service and support available at a lower spend level than other larger communications and IT businesses. AdEPT provides dedicated account management for customers spending as little as £400 per month on telecom and IT services.

UK client base

AdEPT provides competitively priced communications and IT solutions for all sizes of UK-based clients spread across a wide range of business sectors.

AdEPT and its sales channels work with its customer base to develop appropriate communications and IT solutions. AdEPT is widely recognised as a multi-site multi-product specialist, with thousands of multi-site customers taking a range of products. AdEPT is increasingly focused on enterprise, public sector and healthcare customers which can benefit from AdEPT's ability to provide a fully unified communication and IT solution.

The market in which we operate

AdEPT is one of the UK's leading managed service providers, specialising in providing multi-product IT and unified communication solutions to multi-site and enterprise customers.

The Group is focused on the growth of managed services and IT revenues, accounting for 81% of total Group revenues. In April 2021 we acquired Datrix, which has expanded the Group's portfolio and created core competencies in the latest secure cloud technology, SD-WAN and related cyber security products, which has further increased the managed services and IT revenues of the Group. The Datrix customer base strengthens the public sector and healthcare presence of the Group as it includes NHS Trusts, care homes, local authorities and universities.

81%
Managed service revenue

Key trends

The transition to cloud services is driving recurring revenues.

Increasingly products are being hosted in the cloud, i.e. at a data centre. As examples, we can see it in telecoms with hosted telephony and IT with packages such as Microsoft 365. The common theme (apart from the location of the servers) is that you do not need expensive upfront capital expenditure and instead the revenue stream is of a monthly recurring nature.

1 million+
Microsoft 365 users

Emerging markets

Convergence of IT and communications is happening now.

Increasingly we are helping customers with converged IT and communications solutions, such as Skype for Business. All divisions within the AdEPT Group are supplying Wi-Fi, data connectivity and hosted telephony solutions alongside specialist IT products and services remotely managing end user IT and communications equipment. Our product portfolio and team of professionals mean that we are ideally positioned for convergence.

1 billion+
Web requests filtered every day

Outlook

Our broad portfolio of products and services creates a large accessible market.

The focus for the Group remains on developing organic sales through leveraging approved supplier status on public sector frameworks, encouraging cross-Group collaboration and maintaining profitability and cash flow conversion. We will continue to invest in AdEPT Nebula to provide customers with an industry-leading connectivity, voice and IT service platform.

60+
NHS Trusts and CCGs

Our strategy

Enabling expansion, investing in customer retention

Our strategy focuses on four key areas, enabling the Company to expand its product range, investing in customer retention, increasing public sector presence by leveraging frameworks and identifying strategic acquisition opportunities.

1. Products

AdEPT has successfully become one of the UK's leading independent managed service providers for IT and unified communications.

Our aims

> Development and expansion of our product range. To constantly monitor product development to ensure that we can offer all of the latest and best of breed products.

Our achievements in the year

> Further investment in AdEPT Nebula to add new products to the portfolio, and successfully sold these into the customer base.

> Continued development and enhancement of existing software apps, and successfully launched these into the customer base.

> Our cloud services have been rolled out to more customers.

Our solutions

> Cloud and hybrid cloud solutions are becoming an ever-increasing market demand. At AdEPT, we plan and migrate services to the cloud but also advise our clients when the cloud may not be in their best interest. We have identified what we believe are the key areas where cloud-based solutions can benefit our clients and address many of the common business issues they share. This set of services is aimed at providing flexible, cost effective solutions that enable businesses to address many of today's IT issues and challenges.

> These services can be mixed and matched to complement the existing IT infrastructure, or where applicable replace the traditional on-premise solutions entirely.

£1 billion+
Web requests filtered every day

2. Customers

Our business is focused on providing high levels of customer service. Our award-winning UK-based customer service teams have all the necessary skills to give our customers peace of mind and a service they can rely on.

Our aims

> Investment in customer retention activities. Improve customer retention by maintaining the highest standards of customer service combined with a highly competitive product offering.

Our achievements in the year

> Continued investment in retention strategies to retain customers.

> Won new larger customers and retained existing clients through providing dedicated account management.

> Successfully designed and implemented cloud-based communications and IT solutions for seamless transition of customers from legacy technology to next generation products and services.

Our solutions

> Maintain close relationships with our customers to provide timely technical support and advice for their organisations, digital transformation roadmaps.

> Maintaining high levels of customer service will remain a critical element of our business model.

83%
Net Promoter Score

3. Frameworks

AdEPT is focused upon increasing its public sector and healthcare presence and helping those customers achieve the budget reductions and cost initiatives they have been set.

Our aims

> Utilising approved supplier status. Further develop the existing public sector and healthcare relationships and forge new partnerships with public and healthcare sector customers.

Our achievements in the year

> Successfully awarded contracts under the Crown Commercial Services framework agreements, including RM3808 Network Services, RM3804 Technology Services 2 and RM385 HSCN Services.

> Successfully delivered the design and implementation of a super-fast fibre network infrastructure across multiple sites for Worcestershire NHS.

> Leveraged our position on the other frameworks to bring in a number of public sector and healthcare customers.

Our solutions

> Continue to review the development of public sector frameworks and ensure that AdEPT remains in a position to be able to take advantage of opportunities as they arise.

56%

Of revenue from customers in the public sector and healthcare

4. Acquisitions

The Board continues to identify and evaluate strategic acquisitions that are considered to meet the criteria of complementing existing business whilst adding value to our shareholders.

Our aims

> Identify strategic acquisitions to add shareholder value. The operational and financial platform in place has been developed to provide further efficiencies from increased scale.

Our achievements

> Acquired Datrix in April 2021 and commenced Project Fusion integration into the AdEPT Group systems and processes.

> Careful planning and rigorous operational and financial due diligence were undertaken to minimise integration and execution risk.

> Successfully integrated the Tunbridge Wells and Fleet operations and accounting/billing systems to create a single operational entity, known as 'Comms South'.

Our solutions

> The executive director team and the Board will continue to monitor all potential acquisition targets that meet the criteria of complementing the existing business and adding shareholder value.

+18%

Revenue run rate from Datrix

Business review

Recurring revenue growth focus

John Swaite
Finance director

Principal activities and review of business

The principal activity of the Group is the provision of unified communication and IT services to both domestic and business customers. A review of the business is contained in the Chairman's and CEO's statements on pages 4 to 10 and the highlights are summarised in this strategic report on pages 16 to 24.

Summary of three year financial performance

	Year ended March				
	2021 £'000	Year on year %	2020 £'000	Year on year %	2019 £'000
Revenue	57,851	(6.2%)	61,688	20.3%	51,294
Gross profit	27,683	(8.4%)	30,232	19.4%	25,328
Underlying EBITDA	9,829	(16.1%)	11,709	8.6%	10,781
Net senior debt	25,562		27,938		27,113

Revenue and gross margin

The business is split into two segments, fixed line and managed services. In respect of managed services versus fixed line revenues, during the year AdEPT has continued to grow its managed services business through a combination of organic contract wins and company acquisition. Total revenue decreased by 5.7% to £58.2m (2020: £61.7m). The revenue and gross margin breakdown is viewed through four strategic groups, where managed services is split into three sub-segments:

	March 2021		March 2020	
£'000	Revenue	Gross margin	Revenue	Gross margin
Fixed line telecom	10,739	3,999	12,891	5,040
Cloud centric strategic services	25,092	11,866	23,127	10,891
Support services	11,817	9,965	13,348	11,256
Technology products	10,201	1,809	12,322	3,045
Total	57,851	27,640	61,688	30,232

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 with an 8.5% year-on-year increase in revenues (FY21: £25.1m vs FY20: £23.1m) and with H2 up 7.2% over H1.

Within this segment professional services, performance is a highlight. This is primarily due to the School Cloud Enablement activity and the success of AdEPT Consulting, demonstrated by a £1.2m year-on-year increase to £4.5m (FY20: £3.3m). Furthermore, professional services revenues were up 18.6% H2 over H1 demonstrating clear momentum.

In addition, revenues from VoIP increased by 11.0% year on year to £2.7m (FY20: £2.4m) which is a result of our success with the new 8x8 proposition (17 new clients secured since signing 8x8 as a new partner) and our activity to migrate customers from traditional fixed line products to new IP-based solutions. This is a trend which has been aided by the increased demands for flexible and remote working during the COVID-19 lockdowns.

Technology products – The increase in one-off professional services was frustratingly offset by a reduction in one-off technology products (hardware and software sales) as customers throughout the year declined to invest in strategic infrastructure initiatives (FY21: £10.2m vs FY20: £12.3m). However, yet again, the H2 trend over H1 provides encouragement with a rise of 31.0% H2 over H1. Whilst sales remained resilient, the product mix (i.e. a propensity for laptops and tablets over more sophisticated infrastructure) was felt in the technology products margins (FY21: 17.9% vs FY20: 24.4%).

Support services – Support services revenues were impacted by the onset of COVID-19 (at 88.5% of FY20 levels, FY21 £11.8m vs FY20 £13.3m) as customers reduced the scale and scope of their services. In some sectors, notably leisure, hospitality, retail and office groups, customers were unable to continue trading during the nationwide lockdowns resulting in downwards flex in service demand. The AdEPT exposure to these sectors is modest, with 55.5% of the Group's businesses generated from public sector and healthcare which has provided stability within a large proportion of the underlying customer base.

Traditional telephony – The structural decline in traditional telephony has been accelerated in FY21. This is as anticipated given that Openreach is continuing with its strategy to switch off the copper telephone network and there is a clear shift to messaging and IP-based services over traditional fixed line and calls services. Additionally, the last twelve months' fixed line revenues have been impacted by substantial reductions in call revenue as a result of access restrictions to business premises during the multiple COVID-19 lockdowns resulting in businesses using other means of communication rather than the desk-based telephone.

The ongoing reduction in the proportion of AdEPT revenues linked to traditional telephony is a result of our strategy to diversify away from traditional telephony into cloud centric strategic services. Traditional telephony is now only 19% of Group revenues (FY20: 21%) and following the acquisition of Datrix is anticipated to be only approximately 12% of our revenues in FY22.

Recurring revenues versus one-off revenues

In respect of recurring revenues versus one-off revenues, the proportion of AdEPT revenue being generated from recurring products and services (being all revenue excluding one-off projects, hardware and software) remains high at 74.5% of total revenue (2020: 74.7%). All of the managed service product sets include an element of hardware supply and installation services, which, by their nature, are project based and not fixed recurring revenue streams; however, a high proportion of hardware supply and installations are further products and services being supplied to the existing customer base.

Market sector analysis

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

The proportion of total revenue generated from public sector and healthcare customers has increased considerably to 57.6% at March 2021 (2020: 44.7%) which partly arises due to the organic customer contract awards, particularly under the various frameworks on which AdEPT is accredited, but is also a reflection of the general contraction in the commercial customer sectors during the COVID-19 lockdown.

The Group is continuing to focus its organic sales efforts on selling a wider portfolio to existing customers, and adding and retaining larger customers, whilst complementing this with an acquisitive strategy. AdEPT is managing the customer risk with a wide spread of business sectors and low customer concentration, with the top ten customers accounting for 23.0% of total revenue (2020: 17.1%) and no customer accounting for more than 10% of the total.

Gross margin

Gross margin percentage decreased to 48.3% during the year (2020: 49.0%). The gross margin percentage from managed services reduced to 50.7%, due to trading challenges during lockdown resulting in customers flexing downwards support services, which are 100% gross margin. The gross margin generated from non-recurring products and services increased to 40.6% (2020: 38.1%) with the increase over the prior year driven by a greater proportion of revenue from professional services, particularly with the cloud enablement of hundreds of schools and academies to remote education through Google Suite and Microsoft Office 365 Education. The gross margin for fixed line services reduced to 37.2% (2020: 39.6%) which reflects a lower proportion of higher gross margin call revenue as business premises were closed during the national lockdowns resulting in depressed business call volumes.

Recurring gross margin reduced to 51.3% (2020: 53.7%) which reflects the decrease in relative higher margin online back-up services combined with a reduction to software margins from an increased take-up of lower relative margin product, such as Microsoft 365, but this software represents a growing ongoing recurring revenue stream. In addition, a number of customers in challenged sectors during COVID-19 lockdown have downsized managed IT and telephony support services during business closures or as a result of reduced operating capacity. Gross margins for these support services are 100% as the headcount costs of supporting the services are included within operating expenditure.

Underlying EBITDA

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

	2021 £'000	2020 £'000
Underlying EBITDA	**9,830**	11,709
Acquisition fees	—	(267)
Restructuring costs	(974)	(288)
Share option charges	(67)	(29)
Adjustment to deferred consideration	—	654
Depreciation	(1,532)	(1,513)
Amortisation	(5,793)	(5,772)
Profit on sale of assets	133	—
Interest	(2,102)	(2,523)
Profit/(loss) before tax	**(505)**	1,971

During the year the Group sold a freehold property that was acquired with the Atomwide acquisition resulting in a profit on sale of £0.1m; this is not considered to be part of the trading profitability of the Group and so has been added back for the purposes of the calculation of underlying EBITDA.

The Group incurred £1.0m of restructuring costs from the ongoing headcount efficiencies generated from the Project Fusion initiative combined with some realignment of the operating cost base of the Group as a result of customer demand reduction during COVID-19. These costs represent a permanent ongoing reduction to the operating costs of the Group.

Depreciation

The Group has continued to invest in strengthening AdEPT Nebula – Nebula is the AdEPT owned platform that supports over 635 customers which take various services from our portfolio of: Nebula Cloud, Nebula Security, Nebula BC/DR, Nebula Voice, Nebula Apps and Nebula Network.

£0.76m of depreciation relates to the liability accounting under IFRS 16 right of use assets. The Group has no ownership of these assets. The cash cost in respect of the right of use asset leases is included within the cash flow statement under the heading 'Payment of lease liabilities'.

Business review continued

Finance costs

Total interest costs have decreased by 16.6% to £2.1m (2020: £2.5m). Cash interest decreased to £1.6m largely from the decrease in the average level of net borrowings to £26.1m (from £32.3m). The Group took a number of prudent measures during the early period of the COVID-19 lockdown to preserve cash, including cancellation of the April 2020 dividend payment, deferral of the Q1 2020 VAT liability and limited use of the Coronavirus Job Retention Scheme ('furlough'). Additionally, the Group focused on careful management of customer credit terms and working capital during the COVID-19 pandemic as it was considered a lead indicator of customer trading and financing challenges. The Group has used treasury management of surplus cash balances to minimise the amount of drawn funds has been used during the year to minimise interest costs.

Included within interest costs is £0.1m of interest charges in relation to IFRS 16 'Leases' which is a cash related item.

Profit/(loss) before tax

This year, reported loss before tax was £0.5m (2020: profit of £2.0m). Operating profit decreased to £1.6m (2020: £4.5m) from the £1.4m reduction to gross margin, £0.6m reduction to the accounting profit from the revaluation of deferred consideration and £0.3m reduction in acquisition fees from the prior period (with no acquisitions completed in the current year) and £0.7m increase to the restructuring costs from the ongoing headcount efficiencies generated from the Project Fusion initiative combined with some realignment of the operating cost base of the Group as a result of customer demand reduction during COVID-19.

The operating profit was absorbed by non-cash items including £5.8m amortisation of intangible assets arising from acquisitions undertaken during prior years, £0.8m non-cash depreciation and £0.1m share-based payments. Profit before tax for the year is also impacted by the following cash items: £0.4m decrease in cash finance costs, the restructuring costs of £1.0m and £0.8m of depreciation which is a cash item under IFRS 16 'Leases'.

Earnings per share

Adjusted profit before tax, adding back amortisation, restructuring costs and interest costs discounting, and removing deferred tax credits, was £5.1m (2020: £6.7m).

The Company issued 1.33 million shares in a placing at the end of February 2020, so there is a full twelve month dilution impact from the share placing in the current year but only a one month impact on the prior year as the number of shares in issue is calculated on a weighted average basis across the twelve month period. This provides a 5.1% equity dilution impact on earnings per share.

Basic earnings per share was negative 1.40p (2020: 4.14p positive). Adjusted fully diluted earnings per share, based on the profit for the year attributable to equity holders adding back amortisation, share option charges, restructuring and acquisition costs, was 22.35p per share (2020: 28.05p).

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. On 25 September 2019, the directors announced their intention to declare an interim dividend of 5.10p per ordinary share in respect of the September 2019 interim results. This interim dividend was due to be paid in April 2020 and would have absorbed approximately £1.3m of cash and shareholders' funds. However, in early April 2020, considering the potential COVID-19 disruption, the Board resolved to cancel the interim dividend that had been declared with the September 2019 interim results.

The Board will continue to monitor the changing economic environment and adopt an appropriate dividend for future periods, with a further update alongside the September 2021 interim results.

Cash flow

The Group benefits from an excellent cash-generating operating model. Low capital expenditure results in a high proportion of underlying EBITDA turning into cash. The proportion of reported EBITDA which turned into net cash from operating activities before income tax was 89.3% (2020: 81.7%).

Overall working capital has absorbed £0.7m of cash during the year. Part of the working capital absorption was anticipated with the continued transition of the Group towards a growing proportion of data connectivity services increasing the level of working capital, with a further £0.2m absorbed by the advanced charging structure of wholesale data connectivity rentals, which are typically quarterly in advance compared to monthly in advance for the end customer. As in prior periods, this is an ongoing increase to the working capital requirement of the Group. Customer payment periods have been a focus for the Group during the COVID-19 pandemic as they are considered a lead indicator of potential future trading and cash issues within the customer base. Through careful management of customer credit terms the trade receivables payment periods have decreased to 44 days at year end (2020: 49 days). The Group has consciously continued to meet supplier payments on time throughout the COVID-19 period; this, combined with hardware pre-purchased to secure supply for the busy Easter holiday installation period in the education sector, has resulted in absorption of cash at year end.

Income taxes paid in cash during the year have decreased to £0.8m (2020: £2.0m). During the current year end HMRC processed the cash refund to the Company of £0.1m in respect of corporation tax overpaid in the year ended 31 March 2019. In addition, the Group moved to a Group Payment Arrangement for corporation tax purposes which moved Centrix Limited back to 'large' status from 'very large' status for corporation tax which deferred £0.2m of cash payment to HMRC.

Cash interest paid has decreased during the year to £1.6m (2020: £1.9m), which arises from the £6.2m decrease in average net borrowings against the prior year.

Cash outflows in the year ended 31 March 2021 in relation to acquisitions amounted to £1.8m. The contingent consideration in respect of the acquisition of ACS of £1.8m was paid in May 2020 with no further amounts due in relation to this acquisition.

There was an increase to cash and cash equivalents during the year of £1.3m to year-end cash of £13.2m. This arises from a net increase in the drawn element of the revolving credit facility at March 2021 which was in order to fund the initial consideration for Datrix Limited which was acquired in early April 2021.

Capital expenditure

The Group continues to operate an asset-light strategy and has low capital requirements; therefore, expenditure on fixed assets is low at 1.8% of revenue (2020: 1.8%). During the year the Group sold a freehold property for proceeds of £0.3m. The capital expenditure in the current year arises from AdEPT investing a further £0.6m in the development of a network connecting three data centres (which, combined with other capabilities and services, is known as 'AdEPT Nebula'). AdEPT Nebula is built around the core data centre in Orpington, which is owned by AdEPT. The network allows AdEPT to provide its own Nebula Cloud hosting capability, Nebula Security, Nebula BC/DR, Nebula Voice, Nebula Apps and Nebula Network.

AdEPT Nebula is live and already delivering benefits to hundreds of customers by providing Avaya IP cloud telephony services, hosted IT services and a range of data connectivity services. The network underpinning AdEPT Nebula has been developed using the in-house skills and capabilities of the AdEPT technical team. The Company will continue to review development opportunities for the addition of new products and services to AdEPT Nebula as customer demand dictates.

Over the last twelve months the AdEPT team has continued to work hard on the 'ONE AdEPT' project, christened 'Project Fusion', including initiatives in relation to sales, marketing, systems, finance and branding. A further investment of £0.6m has been made over the last twelve months, which includes the cost of third-party consultancy and some capitalisation of the internal development teams, time spent dedicated to the project. Despite the challenges of lockdown and remote working, during the year three further operating divisions have been migrated to the centralised CRM and finance platforms. This achievement means that seven of the eight operating sites are now benefiting from Project Fusion, with over 80% of Group employees now using the platform. The final remaining operating divisions' migration has gone live in April 2021.

Payments of lease liabilities

As required under IFRS 16, the balance sheet value of tangible fixed assets includes the discounted value of the remaining lease rentals for any material agreements which have a lease term greater than twelve months. The net present value of any new 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 lease agreements are included in the cash flow statement under the heading 'Payments of lease liabilities' and amounted to £0.9m in the current year (2020: £0.8m).

Business combinations

On 12 April 2021, the Company acquired the entire issued share capital of Datrix Limited ('Datrix'), a well-established, award-winning supplier of advanced cloud-based networking, communications and cyber security solutions, headquartered in London, with expertise in the growing Software Defined Wide Area Networking (SD-WAN) market focused on the public sector and healthcare. The vendors and the senior management team responsible for the strategic direction, technical development and day-to-day operations of Datrix have been retained within the business post-acquisition. Initial consideration of £9.0m, on a debt-free, cash-free basis, was paid in cash. Pursuant to the terms of the share purchase agreement, the effective date of the acquisition is 1 April 2021. Further contingent deferred consideration of up to £7.0m may be payable in cash dependent upon the trading performance of Datrix in the twelve month period ended 31 March 2022. The contingent deferred consideration will be determined by reference to the gross margin of the acquired business and applying the contingent deferred consideration calculation as specified in the share purchase agreement.

The fair value of the assets and the contingent consideration liability have not yet been identified at the date of these results as the completion balance sheet was not available.

Further details on the acquisition are described in Note 31 of the financial statements.

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 £7.4m was generated during the year ended 31 March 2021 (2020: £7.6m).

In March 2021, the Company signed a new enlarged banking facility agreement with NatWest and Bank of Ireland, to support its growth ambitions. This agreement is for a three year term, extendable by one year, and provides the Company with up to £70m senior debt, comprising a £35m revolving credit facility, a £15m term loan and a £20m accordion facility. This new facility replaces the £40m revolving credit facility, which was due to expire in February 2022. The commercial terms of the enlarged facility are the same as the previous existing facility.

Opening cash plus the free cash flow generated in the year and borrowing drawdowns from the senior debt facility have been used to fund £1.8m acquisition consideration and £1.0m of capital expenditure on tangible and intangible assets. Net senior debt, which comprises cash balances and senior bank borrowings (excluding IFRS 16 liabilities), has decreased to £25.6m at the year end (2020: £27.9m).

Segmental key performance indicators (KPIs)

The segmental KPIs outlined below are intended to provide useful information when interpreting the accounts. 81% of revenue and EBITDA is generated from managed services (2020: 79% revenue and 77% EBITDA).

	Fixed line services £'000	Managed services £'000	Total £'000
Year ended 31 March 2021			
Revenue	**10,739**	**47,112**	**57,851**
Gross profit	**3,999**	**23,641**	**27,640**
Gross margin %	**37%**	**50%**	**49%**
Underlying EBITDA	**1,880**	**7,949**	**9,830**
Underlying EBITDA %	**18%**	**17%**	**17%**
Year ended 31 March 2020			
Revenue	12,891	48,797	61,688
Gross profit	5,040	25,193	30,232
Gross margin %	39%	52%	49%
Underlying EBITDA	2,675	9,034	11,709
Underlying EBITDA %	21%	18%	19%

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

Section 172 requirements of the Companies Act

The section 172 requirements of the Companies Act in respect of the directors' duty to promote the success of the Company are covered in the corporate governance statement included in these accounts.

Business review continued

Principal risks and uncertainties

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

Customer loss risk

The impact of this is partially mitigated with no customer accounting for more than 10% of the Group revenue. The top ten customers account for approximately 23.0% of revenues. The customer base of the Company is also spread across a wide geographical area and across a wide range of business sectors. We continue to monitor customer churn, and develop our customer offering and service delivery. We acknowledge that some of our customers may come under increased financial pressure as a result of continued COVID-19 disruption. To manage this risk, we maintain regular contact with our customers to identify and respond to any risks as early as possible.

Catastrophic event risk

All employees are able to work remotely, and the Group's operational and administrative servers are located and managed such that damage from an outage is minimised. A business continuity plan is in place which is reviewed regularly and enhanced from the results of testing. The Group is increasingly moving to cloud-based systems, which are more readily available for a timely response to a catastrophic event. A testimony of the Group's ability to deal with a catastrophic event is the response to the COVID-19 pandemic which saw virtually all of the Group's workforce transition to remote working in the space of a couple of days in March 2020.

Credit risk

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

Liquidity risk

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

Competitor risk

The Group operates in a highly competitive market with rapidly changing product and pricing innovations. We are subject to the threat of our competitors launching new products in our markets (including updating product lines) before we make corresponding updates and developments to our own product range. This could render our products and services out of date and could result in loss of market share. To reduce this risk, we undertake new product development and maintain strong supplier relationships to ensure that we have products at various stages of the life cycle.

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

Cyber-attack on Company, customer or supplier systems

The Group has extensive experience in cyber security and continues to invest in training, systems and tools to protect the Company and its customers. Customer networks are securely segregated from those of the Company and systems are replicated/backed up in more than one location. AdEPT holds several security accreditations including ISO 27001, Cyber Essentials and PCI DSS. The Company's security systems and processes are subject to extensive third-party external auditing. In addition, the Company has in place a cyber insurance protection.

Acquisition integration execution

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

John Swaite

John Swaite
Finance director
23 July 2021

New acquisition of Datrix

In April 2021, AdEPT completed the acquisition of the entire issued share capital of Datrix Limited ('Datrix'). Datrix is a well-established, award-winning supplier of advanced cloud-based networking, communications and cyber security solutions, headquartered in London, with expertise in the growing Software Defined Wide Area Networking ('SD-WAN') market.

Datrix designs, delivers and manages end-to-end enterprise solutions for large, complex, multi-site, mission-critical environments. Approximately 63% of revenue and gross margin is generated from recurring services, with 63% of total revenue generated from public sector customers.

The acquisition provides instant scale, expanding the Group's portfolio and creating core competencies in the latest secure cloud technology, SD-WAN and related cyber security products.

The demand for such unified, secure cloud-based network and communication solutions has been accelerated by the changes to working lifestyles, driven by the pandemic, and this demand continues to grow in both the public and private sectors. Datrix is very well positioned to benefit from the increased need for these new technologies.

Complementary vertical markets

Datrix has a strong customer base which is well aligned with AdEPT's vertical market focus. The Datrix customer base includes NHS Trusts, care homes, local authorities, universities, energy companies, law firms and construction companies. As well as bringing new customer relationships, the addition of Datrix strengthens AdEPT's position on Local and Central Government supplier frameworks.

This builds on the AdEPT expertise in this field, as evidenced by the recent completion of the Kent NHS HSCN network deployment benefiting over 400 NHS locations across the county, including critical care hospitals, care homes and doctors' surgeries.

Gartner Magic Quadrant product strategy

The Datrix strategy is focused on the delivery of next generation solutions from companies ranked as leaders by Gartner within its Magic Quadrant methodology. Gartner is a widely respected technology research and advisory firm. To be deemed a leader by Gartner, the product or company must excel based on its vision and its ability to execute the vision within its field.

Outstanding partner relationships

Datrix is a highly respected partner of Extreme Networks, a provider of end-to-end networking solutions for large enterprises. Datrix holds the ultimate Black Diamond Specialized Partner status with Extreme. This status reflects that Datrix has significant expertise and experience in its technologies and solutions, bringing benefits in terms of technical, marketing and pricing support. Datrix is a Premium Partner with Cato Networks, which provides converged SD-WAN and network security solutions delivered as a cloud platform, and is also a Gold Partner of Palo Alto Networks, a global leader in cyber security.

+18%

Increase to Group revenue

63%

Recurring revenue and margin

Key performance indicators

Revenue
(2020: £61.7m)

£57.9m

Revenue from sales made to all customers (excluding intra-group sales which are eliminated on consolidation).

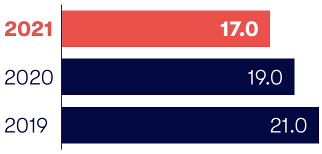
Gross profit margin
(2020: 49.0%)

48.3%

Gross profit (being revenue less all direct third-party cost of sales) as a percentage of revenue.

Underlying EBITDA margin
(2020: 19.0%)

17.0%



Underlying EBITDA as a percentage of revenue.

Underlying EBITDA
(2020: £11.7m)

£9.8m

Earnings before interest, taxation, depreciation, amortisation, gains and losses on revaluation, acquisition fees and restructuring costs.

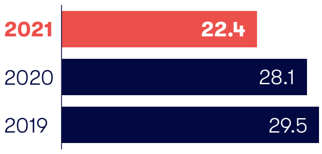
Net senior debt
(2020: £27.9m)

£25.6m

Cash and cash equivalents less short-term and long-term senior borrowings and prepaid bank fees.

Adjusted earnings per share
(2020: 28.1p)

22.4p



Adjusted earnings after tax divided by the fully diluted number of shares.

Read more about our corporate governance on pages 26 to 36

Principal risks and uncertainties

Principal risks and uncertainties

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

Nature of risk and impact	Mitigation	Change	Link to strategy
Catastrophic event risk			
Catastrophic events, such as COVID-19, present a potential risk to the ability of the Group to continue to operate efficiently and maintain high service levels. This presents a risk to customer services and systems which therefore creates a risk of customer claims and loss for failure to meet contracted service levels.	A business continuity plan is in place which is reviewed regularly and enhanced from the results of testing. The Group is increasingly moving to cloud based systems, which are more readily available for a timely response to a catastrophic event. All employees are able to work remotely, and the Group's operational and administrative servers are located and managed such that damage from an outage is minimised. A testimony of the Group's ability to deal with a catastrophic event is the response to the COVID-19 pandemic which saw virtually all of the Group's workforce transition to remote working in the space of a couple of days.	Risk increased	1 2 3
Customer loss risk			
We acknowledge that some of our customers may come under increased financial pressure as a result of COVID-19 trading disruption. This may result increased credit risk for the Group and loss of revenue from customer business failures.	The impact of this is partially mitigated with no customer accounting for more than 10% of the Group revenue. The top ten customers account for approximately 24.6% of revenues. The customer base of the Company is also spread across a wide geographical area and across a wide range of business sectors. We continue to monitor customer churn, develop our customer offering and service delivery. To further manage this risk, we maintain regular contact with our customers to identify and respond to any risks as early as possible.	Risk increased	2 4
Cyber-attack on Company, customer or supplier systems			
There is an ever-increasing threat of cyber-attacks on network infrastructure which places a risk on the security of underlying data being stored and disruption to the services being supplied. This presents a risk of a potential claim from a customer in relation to data loss but also increased revenue churn from failure to meet contracted service levels.	The Group has extensive experience in cyber security and continues to invest of training, systems and tools to protect the Company and its customers. Customer networks are securely segregated from those of the Company and systems are replicated/backed up in more than one location. AdEPT holds several security accreditations including ISO27001, Cyber Essentials and PCI DSS. The Company's security systems and processes are subject to extensive third-party external auditing. In addition, the Company has in place a cyber insurance protection.	No change	1 2 3 4

Principal risks and uncertainties continued

Nature of risk and impact	Mitigation	Change	Link to strategy
Liquidity risk			
The Group is reliant on an efficient working capital model alongside an acquisition strategy. This presents a risk that insufficient liquidity from working capital extension would reduce the Group's ability to meet its third-party liabilities to suppliers but also restrict the Group's ability to fund acquisition consideration.	The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. External funding facilities are managed to ensure that both short-term and longer-term funding is available to provide short-term flexibility whilst providing sufficient funding to the Group's forecast working capital requirements.	No change	1 2 3 4
Credit risk			
The Group extends credit of various durations to customers depending on customer credit worthiness and industry custom and practice for the product or service. In the event that a customer proves unable to meet payments when they fall due, the Group will suffer adverse financial consequences.	To manage this, the Group continually monitors credit terms to ensure that no single customer is granted credit inappropriate to its credit risk. Additionally, a large proportion of our customer receipts are collected by monthly direct debit. The risk is further reduced by the customer base being spread across a wide variety of industry and service sectors.	Risk increased	2 3 4
Competitor risk			
The Group operates in a highly competitive market with rapidly changing product and pricing innovations. We are subject to the threat of our competitors launching new products in our markets (including updating product lines) before we make corresponding updates and developments to our own product range. This could render our products and services out of date and could result in loss of market share.	To reduce this risk, we undertake new product development and maintain strong supplier relationships to ensure that we have products at various stages of the life cycle. Competitor risk also manifests itself in price pressures which are usually experienced in more mature markets. This results not only in downward pressure on our gross margins but also in the risk that our products are not considered to represent value for money. The Group therefore monitors market prices on an ongoing basis.	No change	1 3 4
Acquisition integration execution			
The Group has set out that its strategy includes the acquisition of businesses where they are earnings enhancing. There is a financial loss risk from poor execution of the pre-acquisition operational and financial due diligence which may result in the inability to integrate the acquired business.	The Board acknowledges that there is a risk of operational disturbance in the course of integrating the acquired businesses with existing operations. The Group mitigates the operational and financial risk by careful planning and rigorous due diligence. In addition, the Group has invested a significant amount of time and expense in the development of a platform for growth through Project Fusion (one AdEPT').	No change	1 3 4

The business review set out on pages 16 to 20 has been approved by the Board on 23 July 2021 and signed on its behalf by:

John Swaite

John Swaite
Finance director

Corporate governance

Board of directors

Ian Fishwick

Chairman
(MBA, ACMA)

Skills and experience
Ian was a chief executive or managing director in the technology industry for 29 years (1990–2018) and is the original founder of AdEPT. In that time, he has completed more than 40 telecoms mergers and acquisitions. Prior to founding AdEPT Technology Group plc (previously AdEPT Telecom) in February 2003, from 1983 to 1995 Ian rose through the ranks at Marconi Secure Systems, including two years as financial controller and five years as managing director. From 1996 to 2000 Ian was a managing director at Telewest Communications, managing Telewest North West, Telewest London and South East and Cable London. Ian was managing director of World Access (UK) Limited from 2000 to 2001. Ian was CEO of AdEPT for 16 years (2003–2018) and moved to Chairman of AdEPT in January 2019.

Phil Race

Chief executive officer
(MBA, BEng)

Skills and experience
Over a 20 year career Phil has headed businesses within Xchanging, SSP, Sirius and Logica (formerly CMG). He has extensive and highly relevant experience of IT outsourcing and enterprise software, having led companies that deployed global, complex, mission critical solutions. Born in Cambridge and an Electronic Engineering graduate of Nottingham University, in 2000 Phil was awarded an MBA from Henley Management College. Phil was appointed to the Board as chief executive on 1 January 2019.

John Swaite

Finance director
(BA Hons, FCA)

Skills and experience
John joined AdEPT in March 2008 as Group financial controller and was promoted to finance director and the Board in January 2009. Prior to joining AdEPT, John spent more than nine years with one of the UK's leading accounting firms. In his role as senior corporate finance manager, John was responsible for all aspects of financial due diligence and transaction support on mergers, acquisitions, flotations and subsequent public offerings.

Andy Lovett

Chief operating officer

Skills and experience
Andy joined AdEPT as COO in June 2019 and was appointed to the Board in March 2020. He has significant experience in running the operational side of businesses spanning software development, IT outsourcing and mission critical client projects. Andy has a wealth of highly relevant skills having previously worked in senior roles for banking software company DPR Group and global outsourcer Xchanging plc.

Richard Bligh

Non-executive director

Skills and experience
Richard joined AdEPT in June 2019; prior to this he held the position of director of business development at Gamma Communications plc, where he was instrumental in building that company to a market value of over £1 billion. Richard has more than 20 years' telecoms sector experience in a variety of marketing and business development vice president roles. These include UK and international experience in ECI Conferencing, Intertek plc, Global Crossing and Racal Telecom. Richard has extensive experience of business markets from serving multi-national corporates to selling via the channel. Richard is a graduate of Cardiff University.

Craig Wilson

Non-executive director

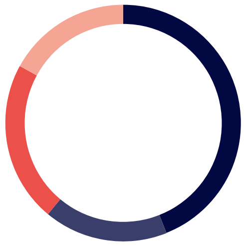
Skills and experience
Craig was formerly chief executive officer of Xchanging plc ('Xchanging') and during his 37 years in the IT services arena led some of the largest managed services companies in the UK including EDS, Hewlett-Packard Enterprise Services and CSC. Craig has extensive experience in business process outsourcing (BPO), IT services and software, running businesses with up to £3 billion in annual revenue and 14,000 staff. Craig has extensive expertise in the public sector arena with experience spanning the Department for Work and Pensions, HM Revenue & Customs, the Ministry of Defence and the Ministry of Justice. Craig is a Fellow of the British Computer Society, a Chartered Engineer and a Chartered IT Professional and holds an MBA and a BSc.

Roger Wilson

Non-executive director
(BA Hons, DMS)

Skills and experience
Roger has worked in the telecom industry for more than 20 years. He was the first managing director for Telewest Communications' residential consumer business in the UK from January 1997 until March 1998. Roger spent three years between June 1998 and April 2001 in Poland establishing a telecom business for American investors. Moreover, he was managing director of ECTA, the European Competitive Telecommunications Association, until January 2006. Roger is a founder investor in AdEPT and was Chairman from 2003–2018.

Sector experience



Finance and investment	8
Technology	3
Governance	4
Public sector	3

- Committee Chairman
- Audit committee member
- Remuneration committee member

Corporate governance

Directors' report

For the year ended 31 March 2021

The directors present their report and the financial statements for the year ended 31 March 2021

The following directors have served during the year:

- Ian Fishwick
- Roger Wilson
- Richard Bligh
- Craig Wilson
- Phil Race
- John Swaite
- Andy Lovett

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

They are further responsible for ensuring that the strategic report, the directors' report and other information included in the annual report and financial statements are prepared in accordance with applicable law in the United Kingdom.

The maintenance and integrity of the AdEPT website is the responsibility of the directors.

Legislation in the United Kingdom governing the preparation and dissemination of the accounts and the other information included in annual reports may differ from legislation in other jurisdictions.

Provision of information to auditor

So far as each of the directors is aware at the time the report was approved:

- there was no relevant audit information of which the Group's auditor was unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor was aware of that information.

Going concern

Accounting standards require the directors to consider the appropriateness of the going concern basis when preparing the financial statements. The directors have considered a number of factors in determining whether the going concern basis remains appropriate.

The Group does not have high customer concentration or sector exposure and the majority of the revenue stream is generated from recurring products and services, which combined provide good revenue and profitability visibility for the foreseeable future. The Group has adequate funding facilities available to it for the period until March 2024, the details of which are included in Notes 21 and 28 of these financial statements. Credit risk is being managed by customers paying via direct debit, paying deposits or paying in advance of receiving service.

The directors have reviewed the detailed financial forecast of the Group and the underlying assumptions in light of the current trading performance, which demonstrate continued strong operating cash flow and adequate headroom in respect of the banking covenants. Based upon this, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and the financial statements are therefore prepared on the going concern basis.

Employee involvement

The Group aims to improve the performance of the organisation through the development of its employees. Their involvement is encouraged by means of team working, team briefings, consultative committees and working parties.

The Group has in place an indemnity insurance policy for the benefit of the senior management and employees at a cost of £8,151 (2020: £8,225). The increase in premium in the current year reflects a higher level of cover.

Disabled employees

The Group is committed to equality of employment and its policies reflect a disregard of factors such as disability in the selection and development of employees.

Subsequent events

On 12 April 2021, the Company acquired the entire issued share capital of Datrix Limited ('Datrix'), a well-established, award-winning supplier of advanced cloud-based networking, communications and cyber security solutions, headquartered in London, with expertise in the growing Software Defined Wide Area Networking (SD-WAN) market focused on the public sector and healthcare. Initial consideration of £9.0m, on a debt-free, cash-free basis, was paid in cash. Pursuant to the terms of the share purchase agreement, the effective date of the acquisition is 1 April 2021. Further contingent deferred consideration of up to £7.0m may be payable in cash dependent upon the trading performance of Datrix in the twelve month period ended 31 March 2022.

Research and development

The Group has a software development team at Atomwide which is responsible for the ongoing enhancement of existing software applications and the development of new software and a technical team which is responsible for the enhancement and development of the AdEPT Nebula network. The costs incurred during the year in relation to these activities was £368,300; these costs are expensed as incurred and are included within administrative expenses in the statement of comprehensive income. In addition, the Group incurred capital costs of £322,835 in relation to the development of the AdEPT Nebula network; these costs have been capitalised and are included within tangible assets.

Investment of £577,624 has been made over the last twelve months in Project Fusion, which includes the cost of third-party consultancy and some capitalisation of the internal development team's time spent dedicated to the project. The progress on the roll out of a Group-wide CRM system is underway with the system live in seven of the eight Group operating sites at year end, with the remaining site going live in April 2021. In addition, the Group is transitioning to a centralised finance platform which is hosted in the AdEPT Nebula network, with three business units already live and the remaining business units expected to transition before the end of 2021.

The rest of the Group does not undertake significant levels of investment in research and development; instead it works with strategic network and supply partners to develop the product portfolio.

Streamlined Energy and Carbon Reporting (SECR)

Streamlined Energy and Carbon Reporting (SECR) is the UK Government's name for energy and carbon reporting and taxation. SECR came into force on 1 April 2019. The Companies Act 2006 described a regime where all large businesses (and we read that as all private businesses apart from SMEs) report carbon emissions in their annual reports and accounts.

With pressures on the UK to meet its climate change targets, the Government launched SECR so all large UK companies are to report their carbon emissions and energy usage on an annual basis. SECR aims to harmonise reporting, removing the multiple carbon reports with different reporting dates and will be streamlined to be consistent with financial reporting years. It will also make it easier to monitor and achieve reductions in carbon and cost each year.

As a largely office-based business, the Group has a relatively low carbon presence. Under the SECR requirements we are reporting energy use (gas and electricity) and business-related mileage for all of our UK operations, for both Company owned and personal vehicle usage.

	March 2021		March 2020	
$kgCO_2e$	Transport	Electricity	Transport	Electricity
Scope 1	—	—	—	—
Scope 2	—	395,862	—	335,217
Scope 3	82,344	—	161,099	—
	82,344	395,862	161,099	335,217

The total electricity consumption value is the actual value of kWh energy units consumed at an average conversion factor of 0.35 $kgCO_2e$ per kWh. Transport is the total value of business mileage (in Company and personal vehicles) consumed at an average conversion factor of 2.9 $kgCO_2e$ per mile travelled.

The Group's intensity ratio, calculated as total energy value per employee, for the year ended 31 March 2021 was 1,513 $kgCO_2e$ (2020: 1,591 $kgCO_2e$), a reduction of 5% from the prior year.

The Group is committed to promoting sustainability. We aim to follow and promote good sustainability practice, to carry out our operations in a way which manages and minimises any adverse environmental impacts from our activities. This includes taking into account environmental factors when choosing energy suppliers, avoiding physical travel to meetings where practical, and supporting our staff with remote/homeworking.

Dividends

No dividends were paid during the year.

Financial risk management

Details of the financial risk management policies of the Group are included in Note 28.

Auditor

The auditor, Crowe U.K. LLP, will be proposed for re-appointment in accordance with Section 489 of the Companies Act 2006.

On behalf of the Board

Phil Race
Director
23 July 2021

Report of the remuneration committee

The Group is committed to the governing objective of maximising shareholder value

Richard Bligh
Chairman of the remuneration committee

Scope of the report

The remuneration report summarises the remuneration committee's activities during the year, the outcomes for directors' remuneration and the Group's remuneration policy. The report also describes how the Group applies the principles of good corporate governance in relation to directors' remuneration. The remuneration committee is appointed by the Board and comprises only non-executive directors. The committee meets regularly to determine, on behalf of the Board, the framework of executive remuneration.

During the year, the membership of the committee comprised Richard Bligh (Chairman), Ian Fishwick, Craig Wilson and Roger Wilson.

The members of this committee do not have any conflicts from cross-directorships that relate to the business of the committee. The members do not have any day-to-day involvement in the running of the Group.

The remuneration committee's remit is to measure the performance of, and determine remuneration policy relating to, directors and senior employees. To support this responsibility, it has access to professional and other advice external to the Group. Taking these factors into account, it then makes recommendations to the Board.

During the year the committee met on four occasions.

To assist the work of the committee, the views of the chief executive officer are also invited where appropriate. However, he does not participate in any decision related to his own remuneration.

Remuneration policy

The Group is committed to the governing objective of maximising shareholder value over time.

Each year the remuneration framework and the packages of the directors are reviewed to ensure they continue to achieve this objective.

The Group operates in large competitive markets with areas of significant growth potential. The Group's executive director remuneration policy is designed to attract and retain directors of the calibre required to maintain the Group's position in its marketplace.

The key features of remuneration and the policy for each element of the packages for executive directors are shown below:

Element of remuneration policy and link to strategy policy and approach

Base salary

- To pay a competitive level of fixed remuneration, taking into account experience and personal contribution to the Group's strategy.
- Intended to attract and retain the talent required to execute the strategy.
- Reviewed annually by the committee in January.

Salary increases will normally be in line with pay review levels across the whole Group and by reference to individual performance. However, reference is also made to changes in role and responsibility. Reference is also made to comparisons with companies of similar size and complexity.

Benefits

These complement an executive's basic salary and are designed to ensure the wellbeing of employees. Benefits in place include pension contribution, car allowance and membership of private health and life assurance schemes.

Bonus

A cash bonus designed to incentivise specific short-term goals and objectives, both financial and non-financial. Goals and objectives are set for the executive director team as a whole with a significant weight being put on meeting and exceeding the annual budget in terms of revenue, EBITDA and net debt targets. Executive directors' bonuses are set at between 10% and 20% of base salary.

Share options

To encourage and reward delivery of the Company's long-term strategic objectives and provide alignment with shareholders through the use of share-based incentives. The remuneration committee applies a policy of issuing share options up to 1% each year of the issued share capital at the date of the previous year end.

All share-based incentives offered to executive directors have minimum three year retention schedules. Share option grants made are at market price. Vesting is subject to continuing employment.

Roger Wilson, Ian Fishwick, John Swaite, Andy Lovett and Phil Race have been granted share options, details of which are shown below. Each executive director has a twelve month rolling service agreement. Non-executive directors each have a three month rolling contract.

The remuneration of the non-executive directors is agreed by the executive directors, and is based upon the level of fees paid at comparable companies and taking account of the directors' evolving responsibilities. The non-executives' remuneration includes base salary, car allowance and associated auto-enrolment pension contributions.

Impact of COVID-19

As a result of the economic uncertainty arising from the COVID-19 pandemic, the Company elected to implement a pay freeze and cancelled all bonus schemes for executive directors during the year ended 31 March 2021.

Director remuneration

The remuneration of the directors in office during the year was as follows:

	Short-term employee benefits			Post-employment benefits		
	Salary and fees paid or receivable £	Bonus and commission paid or receivable £	Other benefits £	Pension contributions £	**Total 2021 £**	Total 2020 £
R Wilson	41,000	—	—	1,043	**42,043**	49,947
I Fishwick	139,015	—	20,304	13,821	**173,140**	213,459
R Bligh	40,000	—	—	1,013	**41,013**	27,504
C Wilson	41,000	—	—	1,043	**42,043**	16,469
P Race	261,975	—	—	10,000	**271,975**	276,975
A Lovett	168,218	—	—	1,313	**169,531**	2,038
J Swaite	180,500	—	9,759	1,615	**196,874**	203,046
Total	876,708	—	30,063	29,847	**931,619**	915,360

During the year retirement benefits were accruing to seven directors (2020: eight) in respect of money purchase pension schemes. The value of the Group's contributions paid to a money purchase pension scheme in respect of the highest paid director amounted to £10,000 (2020: £13,821).

The share option debit recognised during the year in respect of the directors was £67,154 (2020: £29,334). The aggregate amount of gains made by directors on the exercise of share options was £Nil (2020: £Nil). There were no directors (2020: Nil) who exercised share options during the year.

The following share options remain outstanding under the Company share option scheme:

	Option scheme	Options at 1 April 2020	Awarded in year	Options exercised	Options lapsed	**Options at 31 March 2021**	Option price	Date of grant
I Fishwick	EMI	129,440	—	—	—	**129,440**	222p	1 March 2016
J Swaite	EMI	64,720	—	—	—	**64,720**	222p	1 March 2016
R Wilson	EMI	29,660	—	—	—	**29,660**	222p	1 March 2016
D Lukic	Unapproved	16,180	—	—	(16,180)	**—**	222p	1 March 2016
R Burbage	Unapproved	100,000	—	—	(100,000)	**—**	238p	31 October 2016
R Burbage	Unapproved	52,500	—	—	(52,500)	**—**	238p	31 October 2016
I Fishwick	Unapproved	140,000	—	—	—	**140,000**	335p	2 August 2017
J Swaite	Unapproved	100,000	—	—	—	**100,000**	335p	2 August 2017
P Race	Unapproved	237,018	—	—	—	**237,018**	368p	1 January 2019
A Lovett	Unapproved	100,000	—	—	—	**100,000**	355p	26 September 2019
P Race	Unapproved	237,018	—	—	—	**237,018**	333p	1 January 2020
A Lovett	Unapproved	—	125,149	—	—	**125,149**	220p	1 January 2021
P Race	Unapproved	—	125,149	—	—	**125,149**	220p	1 January 2021

All options were issued at market value and have a three year vesting period. 463,820 of the outstanding options have vested and they are not subject to any performance conditions. The remaining options are not subject to any performance conditions and have not yet vested.

Richard Bligh
Chairman of the remuneration committee
23 July 2021

Corporate governance statement

The directors recognise the importance of sound corporate governance and have developed governance policies appropriate for the size of the Group, with reference to the main provisions of the Corporate Governance Code for Small and Mid-Size Quoted Companies published by the Quoted Companies Alliance (QCA).

The following is a list of the ten core principles of the QCA Corporate Governance Code and the application by the Company in support of the Group's medium to long-term success

1. Establish a strategy and business model to promote long-term value for shareholders

AdEPT was originally established as a fixed line telecoms provider but is diversifying its product range to become one of the UK's leading independent unified communications and IT service providers. This transition has been largely through development of the organic sales focus combined with strategic acquisition of earnings-enhancing business.

Our strategy focuses on four key areas:

- enabling the Company to expand its product range;
- investing in customer retention;
- increasing public sector presence by leveraging frameworks; and
- identifying strategic acquisition opportunities.

The Company is focused on maintaining a high proportion of recurring revenue and margin, and a low operating cost base with a high proportion of EBITDA converting to operating free cash flow. This high free cash flow is to be reinvested into the Company via strategic earnings-enhancing acquisitions combined with returns to shareholders via dividends.

Key challenges in the execution of the strategy of the Group are the following risk factors:

- credit risk;
- competitor risk;
- acquisition integration;
- capital risk management;
- liquidity risk; and
- retention of the Board and senior management.

All of these are covered in greater detail later in this statement.

2. Understanding and meeting shareholders' needs and expectations

The Company remains committed to listening and communicating openly with its shareholders to ensure that its strategy, business model and performance are clearly understood. Understanding what analysts and investors think about us, and, in turn, helping these audiences understand our business, is a key part of driving our business forward and we actively seek dialogue with the market. We do so via investor roadshows, attending investor conferences and our regular reporting.

The AGM is the main forum for dialogue with retail shareholders and the Board. The Notice of Meeting is sent to shareholders at least 21 days before the meeting. The Chairs of the Board and all committees, together with all other directors, routinely attend the AGM and are available to answer questions raised by shareholders. For each vote, the number of proxy votes received for, against and withheld is announced at the meeting. The results of the AGM are subsequently published on the Company's corporate website.

The executive directors have regular dialogue with all major shareholders of the Company and prospective new shareholders through investor meetings and webinars. The chief executive officer and finance director make presentations to institutional and private shareholders and analysts each year immediately following the release of the full year and half year results. In addition, the executive directors attend investor shows and produce audio and video updates on a regular basis, copies of which can be found on the investor relations pages of the Company website.

The feedback received by the Board from shareholders is that these audio and video updates provide a time and cost effective method of getting updates on the strategy and financial performance of the Company.

The Board regularly undertakes reviews with major shareholders to understand the drivers behind their investment decisions. The aim is to try and communicate the strategy of the Company to those shareholders and demonstrate how it expects to deliver long-term value.

The Company has a shareholder benefit scheme for any shareholders with 250 or more shares. The details of the scheme are included on the Company website and provide an open path of communication with shareholders.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Company leverages the expertise of its own workforce but also that of third-party suppliers/partners and therefore recognises that maintaining good relationships with those stakeholders is vital for the long-term success of the Company.

The Board has identified the range of stakeholders on which the success of the Company is dependent. The executive Board is involved in all discussions with key stakeholders to ensure that their needs, interest and expectations are both understood and aligned with those of the Company.

There is a continuous feedback loop in relation to all processes within the Company to ensure that the senior management team and Board are able to act on any feedback from stakeholders. Once a week, the executive director team has a meeting with the senior management at each site within the Group to understand any issues arising so that they can be dealt with in a timely manner.

Employee involvement

The directors believe that the employees of the Company are one of its most important assets and the continued and sustained development of the Company relies on its ability to retain and attract employees of a high standard. AdEPT is proud to have a high number of long-serving employees with more than five years' service.

The AdEPT equal opportunities policy ensures that all job applicants and employees are treated fairly and without favour or prejudice. We are committed to applying this policy throughout all areas of employment, recruitment and selection, training, development and promotion.

Employees are regularly informed of matters concerning their interest and the financial factors affecting the Company. The Company uses management forums and employee newsletters to communicate matters as well as team and individual meetings and employee engagement surveys.

Environmental commitment

AdEPT is committed to promoting sustainability. Concern for the environment and promoting a broader sustainability agenda are integral to AdEPT's professional activities and the management of the organisation. We aim to follow and promote good sustainability practice, to carry out our operations in a way which manages and minimises any adverse environmental impacts from our activities and to help our clients and partners to do the same.

Our sustainability policy is based upon the principles of continual and effective improvement on environmental performance. This policy is communicated to our employees, associates, suppliers, clients and other parties to ensure that all parties are fully aware of our sustainability policy and are committed to implementing and improving it. The sustainability policy is reviewed annually, and we are committed to continually striving to improve our sustainability performance within the guidelines of our organisation.

The Company encourages its staff to use public transport to attend meetings and site visits whenever possible and minimise sole occupancy travel whenever practical. The Company is committed to encouraging the use of teleconferencing or video-conferencing, and efficient timing of meetings to avoid unnecessary journeys. In addition, the Company supports alternative working arrangements, including homeworking.

AdEPT encourages the reuse or recycling of office waste, including paper, packaging, computer supplies and redundant equipment. Wherever possible AdEPT ensures that waste materials are disposed of in an environmentally safe manner and in accordance with regulations. AdEPT is committed to reducing the energy consumptions of office equipment by purchasing energy efficient equipment and good housekeeping.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Company has established a framework of internal financial controls, the effectiveness of which is reviewed by the executive management, the audit committee and the Board in light of ongoing assessment of significant risks facing the Company.

Internal control and risk assessment

The directors are responsible for risk assessment and systems of internal control. Although no system of internal control can provide absolute assurance against material misstatement or loss, the Group's systems are designed to provide the directors with reasonable assurance that problems are identified on a timely basis and dealt with appropriately. The Board is responsible for reviewing and approving overall Company strategy, approving revenue and capital budgets and plans, and determining the financial structure of the Company including treasury, tax and dividend policy. Monthly results and variances from plans and forecasts are reported to the Board. The key features of the Group's system of internal control are:

- a management structure with clearly defined responsibilities and authority limits;
- a comprehensive system of reporting financial results to the Board. Towards the end of each financial year, detailed budgets are prepared for the following year. Reforecasts are prepared on a regular basis during the year, for example reflecting an additional acquisition. The actual results are compared to the budget and/or reforecasts as appropriate;
- regular review of staff skills and identifying and providing training;
- regular review of operational performance by the executive directors, including sales and customer service;
- appraisal and authorisation of capital expenditure;
- approval of significant contracts; and
- review of the risks faced by the Group.

In addition to its other roles and responsibilities the audit committee is responsible to the Board for ensuring that procedures are in place, and are being effectively implemented to identify, evaluate and manage the significant risks faced by the Group. The audit committee reviews the risks and controls on a regular basis.

The following principal risks, and controls to mitigate them, have been identified:

Liquidity risk

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

Credit risk

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

Currency risk

The Group's operations are handled almost entirely in sterling.

Capital risk management

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. There were no changes to the Group's approach to capital management during the year.

As part of the banking arrangements, the Group is required to comply with certain covenants, including net debt to adjusted EBITDA and interest cover.

In order to maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares or sell assets (customer bases/relationships) to reduce debt.

Corporate governance statement continued

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation continued

Competitor risk

The Group operates in a highly competitive market with rapidly changing product and pricing innovations. We are subject to the threat of our competitors launching new products in our markets (including updating product lines) before we make corresponding updates and developments to our own product range. This could render our products and services out of date and could result in loss of market share. To reduce this risk, we undertake new product development and maintain strong supplier relationships to ensure that we have products at various stages of the life cycle.

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

Acquisition integration execution risk

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

5. Maintain the board as a well-functioning, balanced team led by the chair

The Board

Executive directors	*Non-executive directors*
Phil Race	Ian Fishwick
John Swaite	Roger Wilson
Andy Lovett	Richard Bligh
	Craig Wilson

The Board

The Board comprises three executive directors and four non-executive directors. It is recognised that Roger Wilson and Ian Fishwick are not considered independent due to their shareholding in the Company.

The Board meets regularly throughout the year and has a formal schedule of matters specifically reserved for its decision. This schedule is included in the corporate governance document available on the Group's website at www.adept.co.uk under the investor relations section.

If required, the directors are entitled to take independent legal advice and, if the Board is informed in advance, the cost of the advice will be reimbursed by the Group. The company secretary's services are available to all members of the Board.

The directors are required to retire on a three year rotational basis, and they are required to stand for re-appointment by shareholders at the AGM.

The Quoted Companies Alliance's Corporate Governance Guidelines for AIM companies recommend that an AIM company should have at least two independent non-executive directors. The Board considers that two of the existing non-executive directors, Roger Wilson and Ian Fishwick, are not independent for the purposes of these guidelines due to their level of shareholdings in the Company and, therefore, that Richard Bligh and Craig Wilson are the independent non-executive directors. The Board believes that the non-executive directors are an effective team with a blend of skills sets which meet the needs of the Company and which are fully committed to working for the benefit of all shareholders and stakeholders. The composition of the Board is regularly reviewed with regard to the ongoing requirements of the Company in the medium to long term.

Directors' conflicts of interest

The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.

Board appointments

The Group does not have a nomination committee. Any decision to appoint further directors to the Board is a decision taken by the whole Board and, where necessary, new Board members will be provided with appropriate training in respect of their role and responsibilities as a public company director.

Meeting attendance

Bi-monthly Board meetings were held throughout the year ended 31 March 2021. Directors are provided with comprehensive background information on the strategy, sales and financial performance in advance of each meeting, and all directors are able to participate fully and on an informed basis in all Board decisions. Any specific actions arising during meetings agreed by the Board are minuted, followed up and reviewed at subsequent meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting. Details of the attendance of individual members at meetings during the year are shown in the table below:

	Management Board meetings	Board meetings	Audit committee	Remuneration committee	Other meetings	Total attendance
R Wilson	1	6	1	4	4	16
I Fishwick	46	6	—	—	—	52
R Bligh	1	6	—	4	4	15
C Wilson	1	6	1	4	4	16
P Race	46	6	—	1*	—	53
J Swaite	46	6	1*	—	—	53
A Lovett	46	6	—	—	—	52

* By invitation.

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

The Board considers that the Company benefits from a range of highly experienced individuals, with sector specialist skills and personal qualities and capabilities that can deliver the strategy of the Company for the long-term benefit of shareholders. Details of the Board and their experience are included on pages 26 and 27. The Board is satisfied that, between the directors, it has an effective and appropriate balance of skills and experience, including in the areas of IT, communications, finance, innovation, commerce, sales and marketing.

Independent advice

There are no external advisers to the Board or any of its committees, other than the auditor (Crowe U.K. LLP). All directors are able to take independent professional advice in the furtherance of their duties, if necessary, at the Company's expense. In addition, the directors have direct access to the advice and services of the company secretary and finance director. The company secretary, Dentons Secretaries Limited, provides the Board with professional expertise in relation to all company secretarial and associated issues. The company secretary is independent of the Company.

It has not been deemed necessary to formalise a training and development programme for each director.

Appointment, removal and re-election of directors

The Board makes decisions regarding the appointment and removal of directors, and there is a formal, rigorous and transparent procedure for appointments. The Company's Articles of Association require that all directors must stand for re-election at least once every three years, and that any new directors appointed during the year must stand for election at the AGM immediately following their appointment.

7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

The remuneration committee is appointed by the Board and comprises only non-executive directors. The committee meets regularly to determine, on behalf of the Board, the framework of executive remuneration. The performance of the executive directors is measured against the internal budget for revenue, EBITDA and cash/net debt, with a performance related bonus for exceeding the internal budget targets.

The members of this committee do not have any conflicts from cross-directorships that relate to the business of the committee. The members do not have any day-to-day involvement in the running of the Group.

The remuneration committee's remit is to measure the performance of, and determine remuneration policy relating to, directors and senior employees. To support this responsibility, it has access to professional and other advice external to the Group. Taking the performance factors into account, it then makes recommendations to the Board.

To assist the work of the committee, the views of the chief executive officer are also invited where appropriate. However, he does not participate in any decision related to his own remuneration.

The Group is committed to the governing objective of maximising shareholder value over time. Each year the remuneration framework and the packages of the directors are reviewed to ensure they continue to achieve this objective.

The Group operates in large competitive markets with areas of significant growth potential. The Group's executive director remuneration policy is designed to attract and retain directors of the calibre required to maintain the Group's position in its marketplace. This is maintained through the use of bonus and share option schemes, as follows:

Bonus

A cash bonus designed to incentivise specific short-term goals and objectives, both financial and non-financial. Goals and objectives are set for the executive director team as a whole with a significant weight being put on meeting and exceeding the annual budget in terms of revenue, EBITDA and cash/net debt targets. Executive directors' bonuses are set at between 10% and 20% of base salary.

Share options

To encourage and reward delivery of the Company's long-term strategic objectives and provide alignment with shareholders through the use of share-based incentives. The remuneration committee applies a policy of issuing share options up to 1% each year of the issued share capital at the date of the previous year end.

All share-based incentives offered to executive directors have minimum three year retention schedules. Share option grants made are at market price. Vesting is subject to continuing employment.

Currently the non-executive directors do not formally get appraised and they do not formally appraise the Chairman's performance. However, the performance evaluation of the committees on which the non-executive directors sit is deemed appropriate for the evaluation of their performance.

8. Promote a corporate culture that is based on ethical values and behaviours

The Board recognises that some groups experience unfair discrimination in society, and AdEPT is committed to challenging unfair discrimination in all forms, ensuring that a sound corporate culture which is based on ethical values of equality is at the heart of everything we do. We value diversity and believe that this brings fresh ideas and perceptions.

The equal opportunity policy of AdEPT sets out the Company's position on equal opportunity in all aspects of employment and helps us to meet our statutory Equality Duty under the Equality Act 2010. The Act sets us an Equality Duty to have due regard to the need to:

- eliminate unlawful discrimination, harassment and victimisation;
- advance equality of opportunity between people who share a protected characteristic and people who do not share it; and
- foster good relations between people who share a protected characteristic and people who do not share it.

The policy has been developed to maintain the following policy objectives:

- to provide a safe and welcoming environment, in which individuals are valued, included and respected;
- to eliminate unfair discrimination;
- to advance equality of opportunity; and
- to foster good relations between different groups of people.

Corporate governance statement continued

8. Promote a corporate culture that is based on ethical values and behaviours continued

The application of the policy is the responsibility of all directors, employees, contractors and partners working on behalf of AdEPT. The policy is made available to all staff via the local network and has been advised to partner organisations.

AdEPT will not discriminate on the basis of sex, race, marital status, disability, age, part-time or fixed-term contract status, sexual orientation or religion in the allocation of duties between employees employed at any level with comparable job descriptions.

Our employment application form will be as simple and straightforward as possible and we will not ask for unnecessary information. Interview questions will be related to the requirements of the job and we will not seek irrelevant qualifications. Applicants will be shortlisted/selected solely on the basis of capability.

Monitoring of our equality and diversity policy is carried out by the senior management team on an annual basis.

9. Maintain governance structures and processes that are fit for purpose and support good decision making by the board

Remuneration committee

The remuneration committee is responsible for the policy for the remuneration of the executive directors, company secretary and operating board.

Members
Richard Bligh (Chairman)
Ian Fishwick
Roger Wilson

Audit committee

The audit committee has responsibility for planning and reviewing the Group's interim and preliminary reports and accounts.

Members
Craig Wilson (Chairman)
Roger Wilson

The audit committee determines the application of the financial reporting and internal control and risk management procedures and the scope, quality and results of the external audit.

Nomination committee

The Group does not have a nomination committee. Any decision to appoint further directors to the Board is a decision taken by the whole Board and, where necessary, new Board members will be provided with appropriate training in respect of their role and responsibilities as a public company director.

Executive team

The executive team consists of Phil Race, John Swaite and Andy Lovett with input from the divisional directors and their teams. It is responsible for the formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of directors. It also manages and oversees key risks, management development and corporate responsibility programmes. The chief executive officer reports to the plc Board on issues, progress and recommendations for change. The controls applied by the executive team to financial and non-financial matters and the effectiveness of these controls are regularly reported to the Board.

10. Communicate how the company is governed and is performing by maintaining dialogue with shareholders and other relevant stakeholders

The Group has a regular dialogue with institutional shareholders and communication with shareholders is given a high priority. The Board welcomes the attendance of individual shareholders at general meetings and the opportunity to address any questions they may have. The notice of the annual general meeting will be sent to shareholders at least 21 days before the meeting. The proxies for and against each resolution are announced at the meetings.

Shareholders are encouraged to view the Company's website at www.adept.co.uk, which includes an investor relations section which contains all the required information under AIM Rule 26.

The Company produces an annual report with the final financial results for each financial year, which is available on the Company website. The annual report also contains the strategic report, report of the remuneration committee and corporate governance statement.

The website of the Company also contains copies of every news announcement which has been released by the Regulatory News Service on the AdEPT pages of the London Stock Exchange website.

The executive directors have regular dialogue with major shareholders of the Company and prospective new shareholders through investor meetings and webinars. In addition, the executive directors attend investor shows and produce audio and video updates on a regular basis, copies of which can be found on the investor relations pages of the Company website.

The Board has an open dialogue with all employees of the Group through monthly communication of all key events and activities which have happened around the Group, including new starters, customer contract wins and financial results which have been released. In addition, regular Group-wide events are held at which employees are informed about new products and services and they have the opportunity to network with their fellow employees.

The Group recognises that maintaining strong relationships with key suppliers is vital and therefore members of the senior management team are constantly liaising with suppliers in relation to new opportunities and development of existing products and services.

The Company completes regular employee surveys to maintain an open dialogue with employees and has introduced new processes to collate employee feedback and use this to improve training and service.

Financial statements

Independent auditor's report

To the shareholders of AdEPT Technology Group plc

Opinion

We have audited the financial statements of Adept Technology Group Plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 March 2021 which comprise:

- the Group statement of comprehensive income for the year ended 31 March 2021;
- the Group and parent company statements of financial position as at 31 March 2021;
- the Group and parent company statements of changes in equity for the year then ended;
- the Group and parent company statements of cash flows for the year then ended; and
- the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the Parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2021 and of the Group's loss for the period then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the director's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- reviewing the cash flow model provided by management and challenging the assumptions made;
- reviewing management's forecasts which show continued growth in both revenue and profitability. Our assessment therefore considered whether this was realistic given the recent economic conditions caused by the pandemic;
- considering the accuracy of past budgeting and trading history, as well as a review of the May management accounts compared to forecast; and
- considering the cash position of the business along with current facilities available for drawdown.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of our audit approach

Materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £250,000 (2020: £250,000), based on Revenue and, EBITDA for the business. The materiality was set based on using a guideline of 5% of EBITDA and 0.75% of revenue.

Overall company materiality was set at £100,000 based on Revenue, EBITDA and adjusted earnings for the business. The materiality was set based on using a guideline of 5% of EBITDA and 0.75% of revenue.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment.

Where considered appropriate performance materiality may be reduced to a lower level, such as, for related party transactions and directors' remuneration.

We agreed with the Audit Committee to report to it all identified mistatements in excess of £25,000 (2020: £10,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.

Overview of the scope of our audit

The audit scope was established during the planning stage and was based around the key matters set out below. The scope involved tests of detail selecting transactions via random sampling techniques.

The audit field work was completed at various sites across the country which reflect the locations the company and its subsidiaries operate from. The parent company and all subsidiaries were audited by Crowe UK LLP and no component auditors were used.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Key audit matter	How the scope of our audit addressed the key audit matter
Revenue recognition, as set out in note 2 to the financial statements Fraud through manipulation of revenue recognition is presumed to be a significant audit risk in most cases and we saw no reason to rebut this presumption.	The accounting policies for each of the companies in respect of IFRS 15 (revenue) were considered in detail when the group adopted IFRS 15. This year we checked there were no changes in policy or revenue streams. We also ensured that revenue is recognised in the correct accounting period and that there were no material cut off errors. We also audited the accounts disclosures and considered the requirements of accounting standards, including disclosing the impact of IFRS 15, had been met. We were informed that there were no instances of material fraud during the year.
Intangible assets, as detailed in the accounting policy note (note 2) and the intangible assets note (note 14). The value of these is significant and assessing the value and amortisation rates used to amortise the intangible assets is complex and involves a degree of subjectivity. Although any impairment would not impact on EBITDA, impairment charges would impact upon distributable reserves which is important for the payment of dividends. The impairment calculations are based upon discounted casfhlows. The significant inputs into the model include the cashflows in the current period, the churn rate (used to assess future cashflows), and the discount rate applied.	We audited the model provided by management and challenged them on the assumptions used. Our procedures included: > Auditing the cashflows used to ensure that only those cashflows relevant to the intangible assets acquired had been included and ensuring the cash generating units to which the intangible has been included is correct. > Ensuring that the period over which cashflows were assessed remained reasonable. > Ensuring that churn rates had been correctly calculated (based on historic rates of customer losses) and future churn rates applied were reasonable in light of our knowledge of the business. > Whether the assumptions used to calculate the discount rate were reasonable and supportable. > Sensitising managements key assumptions.

Our audit procedures in relation to these matters were designed in the context of our audit opinion as a whole. They were not designed to enable us to express an opinion on these matters individually and we express no such opinion.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report continued
To the shareholders of AdEPT Technology Group plc

Opinion on other matter prescribed by the Companies Act 2006
In our opinion based on the work undertaken in the course of our audit

> the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

> the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company financial statements are not in agreement with the accounting records and returns; or

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Responsibilities of the directors for the financial statements
As explained more fully in the directors' responsibilities statement set out on page 28 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Extent to which the audit is capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We identified and assessed the risks of material misstatement of the financial statements from irregularities, whether due to fraud or error, and discussed these between our audit team members. We then designed and performed audit procedures responsive to those risks, including obtaining audit evidence sufficient and appropriate to provide a basis for our opinion.

We obtained an understanding of the legal and regulatory frameworks within which the company operates, focusing on those laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements. The laws and regulations we considered in this context were the Companies Act 2006 and Taxation legislation.

We identified the greatest risk of material impact on the financial statements from irregularities, including fraud, to be the override of controls by management and the recognition of revenue. Our audit procedures to respond to these risks included:

> enquiry of management about the Group's policies, procedures and related controls regarding compliance with laws and regulations and if there are any known instances of non-compliance;

> examining supporting documents for all material balances, transactions and disclosures;

> review of the board meeting minutes;

> enquiry of management and review and inspection of relevant correspondence with any legal firms;

> evaluation of the selection and application of accounting policies related to subjective measurements and complex transactions;

> detailed testing of a sample of sales made during the year and around the year and agreeing these through to invoices and despatch records;

> testing the appropriateness of a sample of significant journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; and

> review of accounting estimates for biases.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Darren Rigden (Senior Statutory Auditor)
for and on behalf of
Crowe U.K. LLP
40-46 High Street
Maidstone
Kent
ME14 1JH, UK
26 July 2021

Consolidated statement of comprehensive income

For the year ended 31 March 2021

	Note	2021 £'000	2020 £'000
Revenue	5	**57,851**	61,688
Cost of sales		**(30,211)**	(31,456)
Gross profit		**27,640**	30,232
Other income	6	**304**	—
Administrative expenses		**(26,347)**	(25,739)
Operating profit		**1,597**	4,494
Total operating profit – analysed:			
Underlying EBITDA		**9,830**	11,709
Share-based payments		**(67)**	(29)
Depreciation of tangible fixed assets		**(1,532)**	(1,513)
Amortisation of intangible fixed assets		**(5,793)**	(5,772)
Adjustment to deferred consideration		**—**	654
Profit on sale of freehold property		**133**	—
Acquisition fees		**—**	(267)
Restructuring costs		**(974)**	(288)
Total operating profit		**1,597**	4,494
Finance costs	9	**(2,102)**	(2,523)
(Loss)/profit before income tax		**(505)**	1,971
Income tax expense	11	**165**	(986)
(Loss)/profit for the year		**(340)**	985
Other comprehensive income		**—**	—
Total comprehensive income		**(340)**	985

	Note	2021	2020
Earnings per share			
Basic earnings	27	**(1.36p)**	4.14p
Diluted earnings	27	**N/A**	4.12p

All amounts relate to continuing operations. The notes on pages 49 to 75 form part of these financial statements.

Consolidated statement of financial position

As at 31 March 2021

	Note	31 March 2021 £'000	31 March 2020 £'000
Assets			
Non-current assets			
Goodwill	13	**17,408**	17,408
Intangible assets	14	**36,895**	41,952
Property, plant and equipment	16	**2,209**	2,700
Deferred tax asset	17	**—**	—
		56,512	62,060
Current assets			
Inventories	18	**569**	612
Contract assets	5	**978**	1,379
Trade and other receivables	19	**12,784**	14,695
Cash and cash equivalents		**13,166**	11,849
		27,497	28,535
Total assets		**84,009**	90,595
Current liabilities			
Trade and other payables	20	**10,884**	14,979
Contract liabilities	5	**2,244**	2,502
Income tax		**357**	156
Short-term borrowings		**81**	54
		13,566	17,691
Non-current liabilities			
Deferred tax	17	**6,700**	7,738
Convertible loan instrument	21	**6,524**	6,340
Long-term borrowings	21	**39,110**	40,444
Total liabilities		**65,900**	72,213
Net assets		**18,109**	18,382
Equity attributable to equity holders			
Share capital	23	**2,503**	2,503
Share premium		**4,378**	4,378
Share option reserve		**1,175**	1,108
Capital redemption reserve		**18**	18
Retained earnings		**10,035**	10,375
Total equity		**18,109**	18,382

The financial statements were approved and authorised for issue by the Board on 23 July 2021 and signed on its behalf by:

Phil Race
Director

The notes on pages 49 to 75 form part of these financial statements.

Registered number 4682431

Company statement of financial position

As at 31 March 2021

	Note	31 March 2021 £'000	31 March 2020 £'000
Assets			
Non-current assets			
Goodwill	13	**2,011**	—
Intangible assets	14	**12,591**	6,760
Investments	15	**32,276**	50,989
Property, plant and equipment	16	**874**	883
Deferred tax asset	17	**—**	—
		47,752	58,632
Current assets			
Inventories	18	**111**	—
Contract assets		**978**	1,244
Trade and other receivables	19	**15,319**	10,305
Cash and cash equivalents		**10,651**	6,619
		27,059	18,168
Total assets		**74,811**	76,800
Current liabilities			
Trade and other payables	20	**4,438**	4,167
Contract liabilities		**2,244**	2,316
Income tax		**297**	(72)
Short-term borrowings		**—**	—
		6,979	6,411
Non-current liabilities			
Other provisions and liabilities	17	**172**	279
Convertible loan instrument	21	**6,524**	6,340
Long-term borrowings	21	**38,807**	40,079
Total liabilities		**52,482**	53,110
Net assets		**22,329**	23,690
Equity attributable to equity holders			
Share capital	23	**2,503**	2,503
Share premium		**4,378**	4,378
Share option reserve		**1,175**	1,108
Capital redemption reserve		**18**	18
Retained earnings		**14,255**	15,683
Total equity		**22,329**	23,690

The loss for the financial year dealt with in the financial statements of the parent Company was £1,428,638 (2020: profit of £1,668,793).

The financial statements were approved and authorised for issue by the Board on 23 July 2021 and signed on its behalf by:

Phil Race
Director

The notes on pages 49 to 75 form part of these financial statements.

Registered number 4682431

Consolidated statement of changes in equity

For the year ended 31 March 2021

	Attributable to equity holders					
	Share capital £'000	Share premium £'000	Share option reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Equity at 1 April 2019	2,370	479	1,079	18	11,753	15,699
Profit for the year	—	—	—	—	986	986
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	986	986
Deferred tax on share options	—	—	—	—	(41)	(41)
Dividends	—	—	—	—	(2,323)	(2,323)
Share-based payments	—	—	29	—	—	29
Issue of new equity	133	3,899	—	—	—	4,032
Equity at 1 April 2020	2,503	4,378	1,108	18	10,375	18,382
Loss for the year	—	—	—	—	(340)	(340)
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	(340)	(340)
Share-based payments	—	—	67	—	—	67
Equity at 31 March 2021	**2,503**	**4,378**	**1,175**	**18**	**10,035**	**18,109**

The notes on pages 49 to 75 form part of these financial statements.

Company statement of changes in equity

For the year ended 31 March 2021

	Attributable to equity holders					
	Share capital £'000	Share premium £'000	Share option reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Equity at 1 April 2019	2,370	479	1,079	18	16,380	20,326
Profit for the year	—	—	—	—	1,668	1,668
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	1,668	1,668
Deferred tax on share options	—	—	—	—	(42)	(42)
Dividends	—	—	—	—	(2,323)	(2,323)
Share-based payments	—	—	29	—	—	29
Issue of new equity	133	3,899	—	—	—	4,032
Equity at 1 April 2020	2,503	4,378	1,108	18	15,683	23,690
Loss for the year	—	—	—	—	(1,428)	(1,428)
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	(1,428)	(1,428)
Share-based payments	—	—	67	—	—	67
Equity at 31 March 2021	**2,503**	**4,378**	**1,175**	**18**	**14,255**	**22,329**

The notes on pages 49 to 75 form part of these financial statements.

Consolidated statement of cash flows
For the year ended 31 March 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
(Loss)/profit before income tax	(505)	1,971
Depreciation and amortisation	7,325	7,285
Adjustment to deferred consideration	—	(653)
Profit on sale of fixed assets	(133)	(17)
Share-based payments	67	29
Net finance costs	2,102	2,523
Operating cash flows before movements in working capital	8,856	11,138
Decrease/(increase) in inventories	43	(45)
Decrease/(increase) in trade and other receivables	1,643	(4,072)
(Decrease)/increase in trade and other payables	(2,566)	2,604
Cash generated from operations	7,976	9,625
Income taxes paid	(598)	(2,018)
Net cash from operating activities	7,378	7,607
Cash flows from investing activities		
Interest paid	(1,603)	(1,861)
Acquisition of subsidiaries net of cash acquired	(1,798)	(6,285)
Purchase of intangible assets	(751)	(419)
Sale of property, plant and equipment	344	—
Purchase of property, plant and equipment	(627)	(706)
Net cash used in investing activities	(4,435)	(9,271)
Cash flows from financing activities		
Dividends paid	—	(2,323)
New bank loans	38,490	5,000
Repayment of bank loans	(39,250)	(9)
Payments of lease liabilities	(866)	(837)
Issue of new equity	—	4,032
Net cash from financing activities	(1,626)	5,863
Net increase in cash and cash equivalents	1,317	4,199
Cash and cash equivalents at beginning of year	11,849	7,650
Cash and cash equivalents at end of year	13,166	11,849
Cash and cash equivalents		
Cash at bank and in hand	13,166	11,849
Cash and cash equivalents	13,166	11,849

The notes on pages 49 to 75 form part of these financial statements.

Company statement of cash flows

For the year ended 31 March 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
Profit/(loss) before income tax	**(1,536)**	1,783
Depreciation and amortisation	**2,358**	2,078
Adjustment to deferred consideration	**—**	(654)
Share-based payments	**67**	29
Net finance costs	**2,073**	2,490
Operating cash flows before movements in working capital	**2,962**	5,726
Decrease in inventories	**22**	—
Decrease/(increase) in trade and other receivables	**5,587**	(973)
(Decrease)/increase in trade and other payables	**(839)**	501
Cash generated from operations	**7,732**	5,254
Income taxes paid	**112**	(17)
Net cash from operating activities	**7,844**	5,237
Cash flows from investing activities		
Interest paid	**(1,608)**	(1,869)
Acquisition of subsidiaries net of cash acquired	**(1,798)**	(6,285)
Purchase of intangible assets	**(607)**	(419)
Purchase of property, plant and equipment	**(367)**	(180)
Net cash used in investing activities	**(4,380)**	(8,753)
Cash flows from financing activities		
Dividends paid	**—**	(2,323)
New bank loans	**39,936**	5,000
Repayment of bank loans	**(39,250)**	(2)
Payments of lease liabilities	**(118)**	(231)
Issue of new equity	**—**	4,032
Net cash from financing activities	**568**	6,476
Net (decrease)/increase in cash and cash equivalents	**4,032**	2,960
Cash and cash equivalents at beginning of year	**6,619**	3,659
Cash and cash equivalents at end of year	**10,651**	6,619
Cash and cash equivalents		
Cash at bank and in hand	**10,651**	6,619
Cash and cash equivalents	**10,651**	6,619

The notes on pages 49 to 75 form part of these financial statements.

Notes to the financial statements

For the year ended 31 March 2021

1. Nature of operations and general information

AdEPT is one of the UK's leading independent providers of managed services for IT, unified communications, connectivity and voice solutions focused on enterprise business, public sector and healthcare customers. The Company provides a complete communications portfolio of unified communications, IP telephony, IT services, equipment installation, managed services, Wi-Fi, IT and communications hardware and data connectivity products.

AdEPT is incorporated under the Companies Act 2006 and domiciled in the UK and the registered office is located at One Fleet Place, London EC4M 7WS. The Company's shares are listed on AIM of the London Stock Exchange.

2. Accounting policies

Basis of preparation of financial statements

The financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006.

Accounting standards require the directors to consider the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate. The Group's available banking facilities are described in Note 28 to the financial statements. The Group has adequate financing arrangements which can be utilised by the Group as required. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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

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

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

Segmental reporting

The directors have considered the requirements of IFRS 8 'Operating Segments' and have concluded that the Group has two segments. For further information see Note 4 of the financial statements.

Revenue

The Group recognises income in accordance with IFRS 15 'Revenue from Contracts with Customers'. Revenue is measured based on the consideration specified in a contract with a customer. Revenue is recognised when it transfers control over a product or service to a customer to the extent that it is probable that the economic benefits will flow to the Group and can be reliably measured.

Notes to the financial statements continued

For the year ended 31 March 2021

2. Accounting policies continued

Revenue continued

The following is a description of the principal activities from which the Group generates its revenue.

Segment	Product/service	Nature, timing of satisfaction of performance obligations and significant payment terms
Fixed line services	Calls and line rental	Revenue from calls, which excludes value added tax and trade discounts, is recognised in the income statement at the time the call is made. Calls made in the year, but not billed by year end, are accrued within receivables as accrued income. Revenue from line rental is recognised in the month that the charge relates to, commencing with a full month's charge in the month of connection. The performance obligations of calls and line rental services are fulfilled in the month in which the services are consumed by customers. Customer payment terms are 14 days from invoice for call usage and line rental services with the charges paid on a monthly basis.
Managed services	Data networks	Revenue arising from the provision of internet and other data connectivity services is recognised evenly over the periods in which the service is provided to the customer. Revenue from installation of data connectivity services is recognised evenly over the term of the customer contract. The performance obligations of data networks are fulfilled when the equipment is installed, the service has gone live and the associated data connectivity rental services are consumed by customers on a monthly basis. All equipment required for data connectivity services is covered by a standard manufacturer warranty which is provided back to back with customer terms. Customer payment terms are 14 days from invoice; installation charges (if applicable) are paid for upfront with the rental charges paid on a monthly, annual or quarterly basis.
Managed services	Sale of goods	Revenue from the sale of goods is recognised when the goods have been fully installed and the risks and rewards of ownership have passed to the customer. The performance obligations of the supply of goods and equipment are met when the goods have been delivered, configured and installed. All goods supplied are covered by a standard manufacturer warranty which is provided back to back with customer terms. Customer payment terms are 30 days from invoice date. A deposit of up to 33% is invoiced prior to delivery with the balance being invoiced once the equipment has been configured and installed.
Managed services	Support services	Support service revenues are recognised evenly over the customer's contractual period for which the charges relate. Support service charges which arise outside of the customer contracts are recognised in the month when the support service is provided. The performance obligations of support services are fulfilled in the month in which the services are consumed by customers. Customer payment terms are 14–30 days from invoice date; support services are invoiced and paid for up to twelve months in advance.

Where customer contracts have multiple components to be delivered (e.g. equipment rental and internet services), the revenue attributable to each component is calculated based on the fair value of each component.

The whole of the revenue is attributable to the provision of voice and data telecommunication services to both residential and business customers. All revenue arose within the United Kingdom.

Grant income

The Group recognises income from government grants under the accruals model as permitted by IAS 20. Grants are recognised in the income statement as other income in the same period as the related expenditure.

2. Accounting policies continued

Goodwill

Goodwill is recognised separately as intangible assets and carried at cost less accumulated impairment losses. Goodwill is tested for impairment at least annually. Any impairment is recognised immediately in the income statement. Subsequent reversals of impairment losses for goodwill are not recognised.

Intangible fixed assets acquired as part of a business combination and amortisation

In accordance with IFRS 3 'Business Combinations', an intangible asset acquired in a business combination is recognised at fair value at the acquisition date.

After initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Impairment reviews are conducted annually from the first anniversary following acquisition.

The intangible asset 'customer base' is amortised to the income statement over its estimated useful economic life on a straight line basis.

Other intangible assets

Also included within intangible fixed assets are the development costs of the Company's billing and customer management system plus an individual licence. These other intangible assets are stated at cost, less amortisation and any provision for impairment. Amortisation is provided at rates calculated to write off the cost, less estimated residual value of each intangible asset, over its expected useful economic life on the following bases:

Customer management system	–	Three years straight line
Other licences	–	Contract licence period straight line
Computer software	–	Three years straight line
Software apps	–	Ten years straight line
Website	–	Five years straight line
Customer relationships	–	Ten to seventeen years straight line

Investments

Shareholdings in subsidiaries are valued at cost less impairment.

Assets carried at amortised cost

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

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

Allowance for impairment of receivables

Management reviews are performed to estimate the level of provision required for irrecoverable debt. Provisions are made specifically against invoices where recoverability is uncertain. Further information on the impairment testing of trade receivables is described in Note 19.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less depreciation and any provision for impairment. Depreciation is provided on all property, plant and equipment at rates calculated to write off the cost, less estimated residual value of each asset, over its expected useful life on the following bases:

Short-term leasehold improvements	–	The shorter of five years and the remaining period of the lease straight line
Fixtures and fittings	–	Three years straight line
Office equipment	–	Three years straight line
Motor vehicles	–	Four years straight line
Rental equipment at customer premises	–	Contract agreement period straight line
Right of use assets	–	Contract agreement period straight line

Notes to the financial statements continued

For the year ended 31 March 2021

2. Accounting policies continued

Lease accounting

The policy applies to leased properties, motor vehicles and certain data connectivity agreements where the underlying services are being used by the Group.

When the Group enters into a lease, a lease liability and a right of use asset are created.

A lease liability is recognised at the commencement date and is measured at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate at the date of initial application. In determining the lease term, hindsight is applied in respect of leases which contain an option to terminate the lease. The lease liability is subsequently increased for a constant periodic rate of interest on the remaining balance of the lease liability and reduced for lease payments. Interest on the lease liability is recognised in the income statement.

A right of use asset is recognised at the commencement date. The right of use asset is measured at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments relating to that lease. The right of use asset is subsequently measured at cost less accumulated depreciation and any accumulated impairment losses. The depreciation policy for leased property, motor vehicles and office and computer equipment is on a straight line basis over the shorter of the lease term and the useful life of the asset.

Where leases are twelve months or less or of low value, payments made are expensed evenly over the period of the lease.

The directors have concluded that the following arrangements will be out of the scope of IFRS 16 based upon the Group's specific circumstances:

> services which the Group rents from third-party network providers which are used by third-party customers; and

> copper and fibre lines which the Group rents from third-party network providers in the 'last mile', comprising copper between the exchange and customer/business premise, and a combination of copper and fibre for FTTC customers.

These services are owned and controlled by third-party network providers, and AdEPT has no direct control over the service in terms of speed or availability.

However, the directors have concluded that the following should be accounted for as a lease under IFRS 16:

> the underlying products and services which the Group is using to operate the business, including those required for operation of the AdEPT Nebula network.

Although the Group has no direct control over the service in terms of speed or availability, AdEPT has the right to determine the use of the underlying service and retains substantially all of the economic benefits throughout the period of use. These assets are dedicated services which are not being shared with other providers. The financial and commercial benefits from ownership belong to the Group during the contractual period, and it has the right to request changes to the service direct with the network provider.

Inventories

Inventories are valued at the lower of cost and net realisable value after making allowance for any obsolete or slow moving items. Full provision is made for any items older than six months. Net realisable value is reviewed regularly to ensure accurate carrying values. Cost is determined on a first-in, first-out basis and includes transportation and handling costs.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Pensions

The Group contributes to personal pension plans. The amount charged to the income statement in respect of pension costs is the contribution payable in the year.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, cash in hand and overdrafts.

Income tax

Income tax is the tax currently payable based on taxable profit for the year.

Deferred income tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred income tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit.

Deferred income tax liabilities are provided in full, with no discounting. Deferred income tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred income tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred income tax assets or liabilities are recognised as a component of income tax expense in the income statement, except where they relate to items that are charged or credited directly to equity, in which case the related deferred income tax is also charged or credited directly to equity.

2. Accounting policies continued

Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the date at which it is granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. Fair value is appraised at the grant date using an appropriate pricing model for which the assumptions are approved by the directors.

At each reporting date, the cumulative expense is calculated representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Trade and other receivables

Trade receivables, which generally have 14 to 30 day terms, are initially recognised at fair value and subsequently held at amortised cost. A provision for impairment of trade receivables is established for any amount due in 90 or more days or when it is considered probable that the Group may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The provision is the difference between the asset's carrying amount and the original invoice amount less bad debts written off. The carrying amount of the asset is reduced through the use of the provision and the amount of the loss is recognised in the income statement. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables.

Subsequent recoveries of amounts previously written off are credited to the income statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade payables

Trade payables are stated at their nominal value, recognised initially at fair value and subsequently valued at amortised cost.

Dividends

Dividend distributions to the Company's shareholders are recognised when payment has been made to shareholders.

Financial instruments

Financial assets and liabilities are recognised at the Group's reporting date when the Group becomes a party to the contractual provisions of the instrument.

Capital

The capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 21 and 28, cash and cash equivalents, and equity attributable to equity holders, comprising issued capital, reserves and retained earnings.

Borrowings and borrowing costs

Borrowings are recorded initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value are recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowing costs are expensed to the income statement as incurred, with the exception of arrangement fees which are deducted from the related liability and released over the term of the related liability in accordance with IFRS 9.

The Group has applied the principles of IAS 32 and IFRS 9 in the recognition and measurement of the convertible loan. The net present value of the loan has been split between the debt and equity components and an amount has been recorded in equity, with the balance being included within long-term debt. The net present value discount and the transaction costs are being recognised in the interest charge in the statement of comprehensive income across the term of the convertible instrument.

3. Critical accounting estimates and judgements

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

Key sources of estimation and uncertainty are:

Goodwill and intangible impairment

The basis of judgement in respect of goodwill and intangible impairment reviews is set out in Notes 13 and 14.

Intangible valuation

The valuation of intangible assets (for example customer bases) is calculated by reference to the discounted cash flow generated by the separable intangible assets which have been acquired. Details of the assumptions used in measuring the fair value of intangible assets on acquisition are set out in Note 14.

Notes to the financial statements continued

For the year ended 31 March 2021

3. Critical accounting estimates and judgements continued

Credit losses on bad debts

Management reviews are performed to estimate the level of provision required for irrecoverable debt under the requirements of IFRS 9. Provisions are made specifically against invoices where recoverability is uncertain. Further information on the receivables allowance account is given in Note 19.

Identification of intangible assets

The allocation of the value of the excess consideration less the net assets acquired are identified as intangible assets arising as part of a business combination; these require judgement in respect of the separately identifiable intangible assets that have been acquired. These judgements are based upon the directors' opinion of the identifiable assets from which economic benefits are derived.

Prior year restatement

The direct salary costs of employees for one of the trading divisions (Comms North) have been reclassified from costs of sales to administrative expenses for the year ended 31 March 2020 to be consistent with the allocation of costs with the same nature in the other trading divisions within the Group. As a result, £841,604 of costs have moved from cost of sales to administrative expenses during the prior year. This is purely reallocation of costs in the income statement and there is no change to operating profit.

4. Segmental information

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

The chief operating decision maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The operating segments are fixed line services (being calls and line rental services) and managed services (which are data connectivity, hardware, IP telephony, support and maintenance services), which are reported in a manner consistent with the internal reporting to the Board. The Board assesses the performance of the operating segments based on revenue, gross profit and underlying EBITDA.

	Year ended 31 March 2021				Year ended 31 March 2020			
£'000	Fixed line services	Managed services	Central costs	Total	Fixed line services	Managed services	Central costs	Total
Revenue	10,739	47,112	—	57,851	12,891	48,797	—	61,688
Gross profit	3,999	23,641	—	27,640	5,040	25,193	—	30,232
Gross margin %	37%	50%	—	48%	39%	51%	—	49%
Other income	56	247	—	304	—	—	—	—
Administrative expenses	(2,175)	(15,939)	—	(18,114)	(2,364)	(16,158)	—	(18,523)
Underlying EBITDA	1,880	7,949	—	9,830	2,675	9,034	—	11,709
Underlying EBITDA %	18%	17%	—	17%	21%	18%	—	19%
Amortisation	(1,741)	(4,052)	—	(5,793)	(1,573)	(4,199)	—	(5,772)
Depreciation	—	—	(1,532)	(1,532)	—	—	(1,513)	(1,513)
Adjustment to deferred consideration	—	—	—	—	—	—	654	654
Acquisition costs	—	—	—	—	—	—	(267)	(267)
Profit on sale	—	—	133	133	—	—	—	—
Restructuring costs	—	—	(974)	(974)	—	—	(288)	(288)
Share-based payments	—	—	(67)	(67)	—	—	(29)	(29)
Operating profit/(loss)	1,439	3,897	(2,440)	1,597	1,102	4,835	(1,443)	4,494
Finance costs	—	—	(2,102)	(2,102)	—	—	(2,523)	(2,523)
Income tax	—	—	165	165	—	—	(986)	(986)
Profit/(loss) after tax	1,439	3,897	(4,380)	(340)	1,102	4,835	(4,952)	985

The segmental figures for the year ended 31 March 2020 have been restated to reclassify revenues and costs associated with non-geographic number services to the fixed line services segment as it better reflects the characteristics of the service.

The assets and liabilities relating to the above segments have not been disclosed as they are not separately identifiable and are not used by the chief operating decision maker to allocate resources. All segments are in the UK and all revenue relates to the UK.

Transactions with the largest customer of the Group are less than 10% of total turnover and do not require disclosure for either 2020 or 2021.

5. Revenue

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

	2021 £'000	2020 £'000
Sale of goods	**14,703**	15,616
Provision of services:		
– calls and line rental	**10,739**	12,891
– data networks	**14,228**	13,976
– support services	**14,659**	16,232
– cloud telephony and other services	**3,522**	2,973
	57,851	61,688
Timing of revenue recognition		
Products transferred at a point in time	**14,703**	15,616
Products and services transferred over time	**43,148**	46,072
	57,851	61,688

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

	2021 £'000	2020 £'000
Receivables, which are included in 'Trade and other receivables'	**8,472**	9,984
Contract assets	**978**	1,379
Contract liabilities	**(2,244)**	(2,502)

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

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

	2021 £'000	2020 £'000
Revenue deferred into future periods	**(2,244)**	(2,502)
Deferred revenue recognised in the period	**2,470**	2,201
Direct costs deferred into future periods	**978**	1,379
Deferred direct costs recognised in the period	**839**	724

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

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

6. Other income

	2021 £'000	2020 £'000
Coronavirus Job Retention Scheme claims	**304**	—

Notes to the financial statements continued

For the year ended 31 March 2021

7. Operating profit

The operating profit is stated after charging:

	2021 £'000	2020 £'000
Amortisation of customer base, billing system and licence	**5,793**	5,772
Depreciation of tangible fixed assets:		
– owned by the Group	**845**	711
– right of use assets	**687**	801
Share option expense	**67**	29
Acquisition costs	**—**	267
Restructuring and non-recurring costs	**974**	288

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

8. Auditor's remuneration

	2021 £'000	2020 £'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	**46**	38
Fees payable to the Group's auditor and its associates in respect of:		
– audit of subsidiaries	**71**	74
– other services relating to taxation	**24**	27

9. Finance costs

	2021 £'000	2020 £'000
On bank loans and overdrafts	**1,608**	1,870
Bank arrangement fees	**435**	357
IFRS 16 lease liability interest	**59**	81
Finance cost on contingent consideration	**—**	215
	2,102	2,523

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

10. Employee costs

Staff costs, including directors' remuneration, were as follows:

	2021		2020	
	Group £'000	Company £'000	Group £'000	Company £'000
Wages and salaries	**13,476**	**2,718**	12,784	2,161
Social security costs	**1,543**	**347**	1,509	305
Share option expense	**67**	**67**	29	29
Other pension costs	**316**	**62**	275	54
	15,402	**3,194**	14,597	2,549

10. Employee costs continued

The average monthly number of employees, including the directors, during the year was as follows:

	2021		2020	
	Group Number	Company Number	Group Number	Company Number
Non-executive directors	4	4	4	4
Administrative staff	312	67	308	35
	316	71	312	39

Key management personnel

The directors are considered to be the key management personnel of the Group, having authority and responsibility for planning, directing and controlling the activities of the Group.

The directors' remuneration is disclosed in the report of the remuneration committee.

11. Income tax expense

	2021 £'000	2020 £'000
Current tax		
UK corporation tax on profit for the year	860	1,129
Adjustments in respect of prior periods	—	(91)
Total current tax	860	1,038
Deferred tax		
Origination and reversal of temporary differences:		
– fixed assets and short-term temporary differences	(43)	67
– share options	(14)	14
– intangibles on business combinations	(963)	(968)
Effect of tax rate change on opening balance	—	763
Adjustments in respect of prior periods	(5)	72
Total deferred tax (see Note 17)	(1,025)	(52)
Total income tax expense	(165)	986

Factors affecting tax charge for the year

The relationship between expected tax expense based on the effective tax rate of AdEPT at 19% (2020: 19%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2021 £'000	2020 £'000
Profit before income tax	(505)	1,971
Tax rate	19%	19%
Expected tax charge	(96)	374
Expenses not deductible for tax purposes	1	(40)
Adjustments to tax charge in respect of prior periods	(25)	(19)
Depreciation/amortisation on non-qualifying assets	22	12
Difference due to deferred tax rate being lower than the standard tax rate	—	—
Movement on share option deferred tax assets taken to equity	—	20
R&D enhanced tax deduction	(50)	(45)
RDEC credit taxed	(21)	(30)
Effect of tax rate change on deferred tax opening balance	—	763
Other	4	(49)
Actual tax expense net	(165)	986

Future changes to tax rates are anticipated in line with the UK Government announcement in the 2021 Budget of an increase in the tax rate to 25% from 1 April 2023.

Notes to the financial statements continued
For the year ended 31 March 2021

12. Dividends
Total dividends paid in the year ended 31 March 2021 was £Nil (2020: £2,322,780).

13. Goodwill
Group

	Total £'000
Cost	
At 1 April 2019	18,108
Additions	1,384
At 1 April 2020	19,492
Additions	—
At 31 March 2021	**19,492**
Impairment	
At 1 April 2019	2,084
Impairment charge	—
At 1 April 2020	2,084
Impairment charge	—
At 31 March 2021	**2,084**
Net book value	
At 31 March 2021	**17,408**
At 31 March 2020	17,408

Company

	Total £'000
Cost	
At 1 April 2019	—
Additions	—
At 1 April 2020	—
Additions	2,011
At 31 March 2021	**2,011**
Impairment	
At 1 April 2019	—
Impairment charge	—
At 1 April 2020	—
Impairment charge	—
At 31 March 2021	**—**
Net book value	
At 31 March 2021	**2,011**
At 31 March 2020	—

We perform an annual goodwill impairment review and we tested our goodwill for impairment as at 31 March 2021.

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

The total intangible value in use for each CGU, incorporating goodwill and the intangible asset value, is determined using discounted cash flow projections derived from the total historical revenue profile of each identifiable CGU. The assumptions which are applied to each CGU in respect of churn rate, discount rate, margin and useful economic life are set out in Note 14.

13. Goodwill continued

The Group's goodwill is split by CGU as follows:

	March 2021 £'000	March 2020 £'000
Centrix Limited	**3,614**	3,614
Comms Group UK Limited	**2,672**	2,672
CAT Communications Limited	**248**	248
Our IT Department Limited	**4,683**	4,683
Atomwide Limited	**3,313**	3,313
Shift F7 Limited	**879**	879
ETS Communications Limited	**615**	615
Advanced Computer Systems UK Limited	**1,384**	1,384

The net present value of the future cash flows for the CGUs is sensitive to the weighted average cost of capital. The rate used to discount the future cash flows is the Group's pre-tax weighted average cost of capital of 8.9%. An increase in the Group's weighted average cost of capital to above 16.2% would materially impair the carrying value of the Group's goodwill by more than £400,000. Further details of the sensitivity of the variables used in the impairment testing are included in Note 14.

14. Intangible fixed assets

Group

	Licence £'000	Computer software £'000	Customer base £'000	Software apps £'000	Website £'000	Total £'000
Cost						
At 1 April 2019	154	1,345	64,343	3,535	1,745	71,122
Additions	108	343	7,292	—	—	7,743
At 1 April 2020	262	1,688	71,616	3,535	1,745	78,846
Additions	139	575	—	—	22	736
At 31 March 2021	**401**	**2,263**	**71,616**	**3,535**	**1,767**	**79,582**
Amortisation						
At 1 April 2019	57	1,320	28,537	586	623	31,123
Charge for the year	63	22	4,961	350	375	5,771
At 1 April 2020	120	1,342	33,498	936	998	36,894
Charge for the year	82	13	4,957	351	390	5,793
At 31 March 2021	**202**	**1,355**	**38,455**	**1,287**	**1,388**	**42,687**
Net book value						
At 31 March 2021	**199**	**908**	**33,161**	**2,248**	**379**	**36,895**
At 31 March 2020	142	346	38,118	2,599	747	41,952

Notes to the financial statements continued
For the year ended 31 March 2021

14. Intangible fixed assets continued

Group continued
Included within the Group's intangible assets is:

	Useful life	March 2021 £'000	March 2020 £'000
Centrix Limited – customer base	17 years	6,030	6,575
Comms Group UK Limited – customer base/website	17 years	3,174	3,544
Our IT Department Limited – customer base/website	17 years	1,823	2,232
CAT Communications Limited – customer base	10 years	699	845
Atomwide Limited – customer base	16 years	4,592	5,308
Atomwide Limited – software/apps	5 years	2,249	2,599
Shift F7 Limited – customer base	10 years	3,718	4,304
ETS Communications Limited – customer base	10 years	2,747	3,110
Advanced Computer Systems UK Limited – customer base	10 years	6,001	6,563
Other customer bases – AdEPT Technology Group plc trading business	10–16 years	5,591	6,356

Company

	Licence £'000	Computer software £'000	Customer base £'000	Total £'000
Cost				
At 1 April 2019	26	1,345	32,045	33,416
Additions	76	343	—	419
At 1 April 2020	102	1,688	32,045	33,835
Transfer from subsidiary	4	—	6,960	6,964
Additions	30	577	—	607
At 31 March 2021	**136**	**2,265**	**39,005**	**41,406**
Amortisation				
At 1 April 2019	26	1,320	24,115	25,461
Charge for the year	19	22	1,573	1,614
At 1 April 2020	45	1,342	25,688	27,075
Charge for the year	30	14	1,696	1,740
At 31 March 2021	**75**	**1,356**	**27,384**	**28,815**
Net book value				
At 31 March 2021	**61**	**909**	**11,621**	**12,591**
At 31 March 2020	57	346	6,357	6,760

14. Intangible fixed assets continued

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

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

Measuring the fair value of intangible assets on acquisition

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

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

Intangible assets are reviewed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The net present value of cash flows for each cash-generating unit is reviewed against the carrying value at the balance sheet date. At the final reporting date of 31 March 2021 the net present value of future cash flows of certain cash-generating units was above the carrying value and therefore no impairment charge has been recorded (2020: £Nil).

We tested our intangible assets and goodwill for impairment as at 31 March 2021. The carrying value of the intangible assets and the key assumptions used in performing the annual impairment assessment and sensitivities are disclosed below:

	Book value of cash-generating unit £'000	Estimated value in use £'000
Centrix Limited and CAT Communications Limited	6,743	16,394
Comms Group UK Limited and ETS Communications Limited	5,423	9,814
Our IT Department Limited and Shift F7 Limited	5,653	9,548
Atomwide Limited and Advanced Computer Systems UK Limited	12,659	26,446

What discount rate have we used?

The rate used to discount the future cash flows is the Group's pre-tax weighted average cost of capital (WACC) of 8.9% (2020: 8.5%). The directors have chosen to use WACC as it is a calculated figure using actual input variables where available and applying estimates for those which are not, such as the equity market premium. An increase in the Group's weighted average cost of capital to above 16.2% would materially impair the carrying value of the Group's intangible assets by more than £400,000.

What churn rate have we used?

For the customer bases which have been fully integrated into the AdEPT Technology Group plc trading business in Tunbridge Wells, the churn rate of 5.4% per annum is based upon the actual historical churn rate of the revenue stream from the customer bases.

For Centrix, Comms Group, Our IT Department, CAT Communications, Atomwide, Shift F7, ETS Communications and ACS the net present value of the discounted future cash flows is based on the actual revenues of the acquired customer bases. The actual historical churn rates for the acquired customer bases vary between nil and 6.6% per annum. Where an acquired customer base has shown growth, a default churn assumption of 3% per annum has been applied.

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

What margin have we used?

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

What is the estimated useful life of customer bases?

The method used to estimate the useful life of each customer base to conduct the impairment review is the revenue churn rate. The average useful economic life of all the customer bases has been estimated at 14 years (2020: 14 years) with a range of 10 to 17 years.

What sensitivities have we applied?

The calculations are sensitive to movements in the discount rate, margin or churn rate and may therefore result in an impairment charge to the income statement. A 1% change to the discount rate, churn rate and gross margin would result in no additional impairment charges.

Notes to the financial statements continued

For the year ended 31 March 2021

15. Investments in subsidiaries

Company

	Company £'000	Total £'000
Cost		
At 1 April 2019	53,746	53,746
Additions	7,274	7,274
Disposal	—	—
At 1 April 2020	61,020	61,020
Additions	—	—
Disposal	—	—
At 31 March 2021	**61,020**	**61,020**
Amounts written off		
At 1 April 2019	2,757	2,757
Written off during the year	7,274	7,274
At 1 April 2020	10,031	10,031
Written off during the year	18,713	18,713
At 31 March 2021	**28,744**	**28,744**
Net book value		
At 31 March 2021	**32,276**	**32,276**
At 31 March 2020	50,989	50,989

During the year the Company has written down its investment in Centrix Limited as the trade and assets of Centrix Limited were hived up to Adept Technology Group plc and the customer base is being serviced and managed by Adept Technology Group plc.

During the year the Company has written down its investment in Our IT Department Limited as the trade and assets of Our IT Department Limited were hived out to Shift F7 Limited and the customer base is being serviced and managed by Shift F7 Limited.

Details of the subsidiaries of the Company are included in Note 30 to the financial statements.

16. Property, plant and equipment

Group

	Motor vehicles £'000	Right of use assets £'000	Short-term leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost						
At 1 April 2019	320	—	294	569	1,941	3,124
Adjustment from adoption of IFRS 16	—	1,848	—	—	—	1,848
Additions	87	324	1	48	570	1,030
Disposals	(50)	(183)	—	(14)	(625)	(872)
At 1 April 2020	357	1,989	295	603	1,886	5,130
Additions	78	514	4	25	599	1,220
Disposals	(183)	(439)	(238)	—	(164)	(1,024)
At 31 March 2021	**252**	**2,064**	**61**	**628**	**2,321**	**5,326**
Depreciation						
At 1 April 2019	238	—	44	371	999	1,652
Charge for the year	66	825	19	88	530	1,528
Disposals	(38)	(100)	—	(7)	(605)	(750)
At 1 April 2020	266	725	63	452	924	2,430
Charge for the year	44	758	15	98	590	1,505
Disposals	(182)	(434)	(39)	—	(163)	(818)
At 31 March 2021	**128**	**1,049**	**39**	**550**	**1,351**	**3,117**
Net book value						
At 31 March 2021	**124**	**1,015**	**22**	**78**	**970**	**2,209**
At 31 March 2020	91	1,264	232	151	962	2,700

Notes to the financial statements continued

For the year ended 31 March 2021

16. Property, plant and equipment continued

Company

	Motor vehicles £'000	Right of use assets £'000	Short-term leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
Cost						
At 1 April 2019	105	—	7	226	914	1,252
Additions	—	—	—	—	180	180
Adjustment from adoption of IFRS 16	—	731	—	—	—	731
At 1 April 2020	105	731	7	226	1,094	2,163
Additions	—	—	—	23	344	367
Transfer from subsidiary	—	158	—	31	52	241
Disposals	(105)	(65)	—	—	—	(170)
At 31 March 2021	**—**	**824**	**7**	**280**	**1,490**	**2,601**
Depreciation						
At 1 April 2019	83	—	7	215	510	815
Charge for the year	22	217	—	6	220	465
Transfer from subsidiary	—	—	—	—	—	—
At 1 April 2020	105	217	7	221	730	1,280
Charge for the year	—	263	—	38	316	617
Disposals	(105)	(65)	—	—	—	(170)
At 31 March 2021	**—**	**415**	**7**	**259**	**1,047**	**1,727**
Net book value						
At 31 March 2021	**—**	**409**	**—**	**23**	**442**	**874**
At 31 March 2020	—	514	—	7	362	883

The right of use asset is made up as follows:

	2021		2020	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Property	**850**	**342**	924	389
Motor vehicles	**140**	**54**	183	80
Other	**25**	**13**	157	45
	1,015	**409**	1,264	514

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

	2021		2020	
	Group £'000	**Company £'000**	Group £'000	Company £'000
Property	**472**	**111**	506	110
Motor vehicles	**166**	**40**	72	43
Other	**120**	**112**	247	64
	758	**263**	825	217

17. Deferred taxation

	2021		2020	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 April	(7,738)	(279)	(6,362)	(122)
Income statement credit/(charge)	1,025	89	52	(114)
Movement in deferred tax on share options taken to equity	4	4	(43)	(43)
Deferred tax transferred from Group company	—	(10)	—	—
Adjustments in respect of prior periods	9	24	—	—
Deferred tax on business combination	—	—	(1,385)	—
At 31 March	(6,700)	(172)	(7,738)	(279)

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

	2021		2020	
	Group £'000	Company £'000	Group £'000	Company £'000
Accelerated capital allowances	(181)	(58)	(213)	(124)
Short-term temporary differences	5	—	18	2
Convertible loan note equity element	(128)	(128)	(158)	(157)
Deferred tax on business combinations	(6,410)	—	(7,385)	—
Share options	14	14	—	—
	(6,700)	(172)	(7,738)	(279)

18. Inventories

	2021		2020	
	Group £'000	Company £'000	Group £'000	Company £'000
Consumables	569	111	612	—

As at 31 March 2021, inventories of £25,765 (2020: £60,407) were fully provided for. During the year £7,320,490 has been recognised as an expense in the statement of comprehensive income.

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

19. Trade and other receivables

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

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

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

Notes to the financial statements continued

For the year ended 31 March 2021

19. Trade and other receivables continued

	2021		2020	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade receivables	8,480	3,793	9,842	3,177
Other receivables	—	—	119	21
Amounts owed by Group undertakings	—	9,200	—	5,899
Prepayments	3,692	2,268	3,917	1,208
Accrued income	612	58	817	—
	12,784	15,319	14,695	10,243

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

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

Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. As at 31 March 2021, trade receivables of £387,712 (2020: £411,319) were fully provided for.

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

	Group £'000	Company £'000
At 1 April 2019	326	120
Receivables provided for during the year as uncollectable	149	33
Receivables collected during the year which were previously provided	(15)	—
Receivables written off in the year which were previously provided for	(64)	(72)
Acquired through acquisition	15	—
At 1 April 2020	411	81
Receivables provided for during the year as uncollectable	245	245
Receivables collected during the year which were previously provided	(153)	—
Receivables written off in the year which were previously provided for	(115)	(51)
Acquired through acquisition	—	25
At 31 March 2021	**388**	**275**

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

20. Trade and other payables

	2021		2020	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade payables	4,176	2,001	4,494	1,210
Other taxes and social security costs	1,998	741	1,982	508
Other payables	179	36	155	36
Lease liability	547	220	674	253
Amounts owed to Group undertakings	—	—	—	—
Accruals and deferred income	3,984	1,440	5,876	362
Contingent consideration	—	—	1,798	1,798
	10,884	4,438	14,979	4,167

The contingent consideration liability of £Nil (2020: £1,797,738) represents the year-end fair value of the contingent consideration liabilities arising on the acquisitions made during the year. The fair value of the contingent consideration liability was initially determined by reference to the forecast growth rate for the customer base and applying the contingent consideration matrix as specified in the share purchase agreement. Further details are included in Note 29.

21. Long-term borrowings

	2021 Group £'000	2021 Company £'000	2020 Group £'000	2020 Company £'000
Between one and two years	—	—	—	—
Between two and five years	45,634	45,322	40,444	40,079
More than five years	—	—	6,340	6,340
	45,634	45,322	46,784	46,419

The bank loan of £38,588,128 is secured by a debenture incorporating a fixed and floating charge over the undertaking and all property and assets present and future, including goodwill, book debts, uncalled capital, buildings, fixtures and fixed plant and machinery.

Included in long-term borrowings is an amount of £6,524,462 which is the debt component of the convertible loan instrument from BGF. This loan instrument is subordinated and ranks behind the bank loan.

Details of the interest rates applicable to the borrowings are included in Note 28.

Included within bank loans are arrangement fees amounting to £661,871 (2020: £211,928) which are being released over the term of the loan in accordance with IFRS 9.

22. Lease liability

Included within long-term borrowings (Note 21) between two and five years is an amount of £521,468 (2020: £655,001) which relates to the IFRS 16 lease liability.

	2021 Group £'000	2021 Company £'000	2020 Group £'000	2020 Company £'000
Within one year	547	220	674	253
Between two and five years	521	218	655	291
More than five years	—	—	—	—
	1,069	438	1,329	544

Total cash payments in respect of IFRS 16 lease agreements during the year was £866,442 (2020: £836,580).

23. Share capital

	2021 £'000	2020 £'000
Authorised		
65,000,000 ordinary shares of 10p each	6,500	6,500
Allotted, called up and fully paid		
25,029,957 (2020: 25,029,957) ordinary shares of 10p each	2,503	2,503

Share options

At 31 March 2021, the following options and warrants over the shares of AdEPT were in issue:

	2021 Number of shares under option	2021 Weighted average exercise price	2020 Number of shares under option	2020 Weighted average exercise price
Outstanding at 1 April	3,162,446	359p	2,925,428	361p
Granted during the year	250,298	222p	337,018	339p
Forfeited during the year	(168,680)	236p	(100,000)	353p
Outstanding at 31 March	3,244,064	355p	3,162,446	359p

Notes to the financial statements continued

For the year ended 31 March 2021

23. Share capital continued

Share options continued

2,335,910 share options were available for exercise at 31 March 2021 (2020: 392,500). The weighted average remaining contractual life of share options and warrants at 31 March 2021 was seven years (2020: seven years).

Employee share option schemes have a vesting period of three years and are settled through new equity issues in return for cash consideration and the maximum term of share options is ten years.

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

	2021	2020
Risk-free interest rate	0.81%	1.62%
Expected volatility	11.0%	12.5%
Expected option life (years)	3.0	3.0
Expected dividend yield	2.5%	2.8%
Weighted average share price	220p	340p
Weighted average exercise price	220p	340p
Weighted average fair value of options granted	11p	20p

The expected average volatility was determined by reviewing 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 2.5%; this is based upon the past dividend yield of AdEPT Technology Group plc and in accordance with the guidance in IFRS 2.

	Exercise price (p)	Expected option life (years)	31 March 2021 No. of options	31 March 2020 No. of options
1 March 2016	222	10	223,820	240,000
1 October 2016	238	10	—	152,500
2 August 2017	335	10	240,000	240,000
2 August 2017	393	10	1,855,910	1,855,910
21 August 2018	353	10	100,000	100,000
1 January 2019	368	10	237,018	237,018
26 September 2019	355	10	100,000	100,000
1 January 2020	333	10	237,018	237,018
1 January 2021	220	10	250,298	—
			3,244,064	3,162,446

The closing price of the ordinary shares on 31 March 2021 was 255p and the range during the year was 81.5p.

24. Pension commitments

At 31 March 2021 there were no pension commitments (2020: £Nil).

25. Related party transactions

During the year dividends were paid to the following directors:

	2021 £	2020 £
I Fishwick	—	72
R Wilson	—	45
D Lukic	—	—
R Burbage	—	22
R Bligh	—	—
C Wilson	—	—
J Swaite	—	8

There is no ultimate controlling party.

25. Related party transactions continued

Transactions between the Company and its subsidiaries are are as follows:

Provision of services from related parties

	31 March 2021 £'000	31 March 2020 £'000
Our IT Department Limited	—	44
Shift F7 Limited	67	—
Atomwide Limited	14	4
Comms Group Limited	3	—
Centrix Limited	1	—
	85	48

Provision of services to related parties

	31 March 2021 £'000	31 March 2020 £'000
Centrix Limited	82	75
Comms Group Limited	137	42
Our IT Department Limited	—	100
Atomwide Limited	105	—
Shift F7 Limited	143	58
	467	275

Amounts due to subsidiaries

	31 March 2021 £'000	31 March 2020 £'000
Centrix Limited	—	729
Our IT Department Limited	—	97
Atomwide Limited	—	—
	—	826

Amounts due from subsidiaries

	31 March 2021 £'000	31 March 2020 £'000
Comms Group Limited	1,921	2,608
Atomwide Limited	217	3,798
Shift F7 Limited	7,062	318
	9,200	6,724

Intra-group dividends of £20,330,802 were paid to AdEPT Technology Group plc from the subsidiary companies during the year (2020: £10,817,340). These dividends are included in the Company profit for the year but are eliminated upon consolidation.

26. Capital commitments

At 31 March 2021 there were capital commitments of £Nil (2020: £Nil).

Notes to the financial statements continued

For the year ended 31 March 2021

27. Earnings per share

Earnings per share is calculated on the basis of a loss of £339,787 (2020: profit of £985,637) divided by the weighted average number of shares in issue for the year of 25,029,959 (2020: 23,812,509). The diluted earnings per share is calculated on the treasury stock method and the assumption that the weighted average unapproved and EMI share options outstanding during the period are exercised. This would give rise to a total weighted average number of ordinary shares in issue for the period of 25,052,139 (2020: 23,945,655).

Adjusted earnings per share is used to reflect the non-cash nature of certain items which are charged to the income statement and the non-trading items, such as acquisition costs, to give a better indicator of the underlying cash generation of the Group. Adjusted earnings per share is calculated by adding back amortisation of intangible assets, impairment of goodwill, the taxation deduction on purchased customer contracts, deferred tax credits on amortisation charges, share option charges, adjustment to deferred consideration acquisition fees and restructuring costs from retained earnings, giving £5,597,601 (2020: £6,716,948). This is divided by the same weighted average number of shares as above.

	2021 £'000	2020 £'000
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to equity holders	(340)	985
Add: amortisation	5,793	5,772
Less: taxation on amortisation of purchased customer contracts	(117)	(117)
Less: deferred tax credit on amortisation charges	(963)	(235)
Add: share option charges	67	29
Less: adjustment to deferred consideration	—	(654)
Add: acquisition fees and restructuring costs	974	555
Add: interest unwind on loan note	184	381
Adjusted profit attributable to equity holders	5,598	6,717
Number of shares		
Weighted average number of shares used for earnings per share	25,029,957	23,812,509
Weighted average dilutive effect of share plans	22,180	133,146
Diluted weighted average number of shares	25,052,137	23,945,655
Earnings per share		
Basic earnings per share	(1.36p)	4.14p
Diluted earnings per share	N/A	4.12p
Adjusted earnings per share		
Adjusted basic earnings per share	22.36p	28.21p
Adjusted diluted earnings per share	22.34p	28.05p

Earnings per share is calculated by dividing the retained earnings attributable to the equity holders by the weighted average number of ordinary shares in issue. Diluted earnings per share has not been calculated as the impact of share plans is anti-dilutive.

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

28. Financial instruments

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

	2021		2020	
	Group £'000	Company £'000	Group £'000	Company £'000
Loans and receivables at amortised cost				
Cash and cash equivalents	**13,166**	**10,652**	11,849	6,619
Loans and receivables	**8,472**	**3,793**	9,961	3,197
	21,638	**14,445**	21,810	9,816
Financial liabilities at amortised cost			53,083	48,871
Liabilities at amortised cost	**51,390**	**48,357**		
Financial liabilities at fair value			1,798	1,798
Contingent consideration	**—**	**—**	54,881	50,669
	51,390	**48,357**		
Amounts due for settlement			6,965	3,297
Within twelve months	**4,987**	**2,257**	47,916	47,372
After twelve months	**46,403**	**46,100**	54,881	50,669
	51,390	**48,357**		

The Company has a three plus one year £50m committed revolving credit facility agreement with NatWest and Bank of Ireland. The revolving credit facility bears interest at 1.85–3.25% over LIBOR on drawn funds, dependent upon the net debt to EBITDA ratchet. The facility is repayable in full on the final repayment date in March 2024, or March 2025 if the one year extension option is activated.

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

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

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

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

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

Notes to the financial statements continued

For the year ended 31 March 2021

28. Financial instruments continued

Below is a summary of liabilities arising from financing activities:

	Borrowings £'000	Convertible loan notes £'000	Leases £'000	Total £'000
At 1 April 2019	34,730	6,174	33	40,937
Cash flows – proceeds	5,000	—	—	5,000
Cash flows – repayments	(10)	—	(837)	(847)
Change of accounting policy (IFRS 16)	—	—	1,825	1,825
Acquisitions – financial liabilities	29	—	—	29
Acquisitions – leases	—	—	324	324
Movement in accrued interests	39	166	(30)	175
At 31 March 2020	39,788	6,340	1,315	47,444
Cash flows – proceeds	(39,250)	—	—	(39,250)
Cash flows – repayments	38,499	—	(866)	37,633
Acquisitions – leases	—	—	514	514
Movement in accrued interests	(321)	184	158	21
At 31 March 2021	**38,716**	**6,524**	**1,121**	**46,362**

Sensitivity analysis

At 31 March 2021 it was estimated that a movement of 1% in interest rates would impact the Group's profit before tax by approximately £0.25m.

Interest rate risk

The Group's current interest rate policy is subject to ongoing review in line with the level of borrowings and potential interest risk exposure. At 31 March 2021, £7,293,726 of the Group's borrowings are at a fixed rate of interest (2020: £7,293,726).

Credit risk

Credit risk associated with cash balances is managed by transacting with financial institutions with high quality credit ratings. Accordingly the Group's associated credit risk is deemed to be limited.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 March 2021 was £21,646,448 (2020: £21,691,278).

Loans and receivables

	2021		2020	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade receivables	**8,480**	**3,793**	9,842	3,176
Other receivables	**—**	**—**	119	21
Cash and cash equivalents	**13,166**	**10,651**	11,849	6,619
	21,646	**14,444**	21,810	9,816

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and this policy has been implemented by requiring staff to carry out appropriate credit checks on customers before sales commence.

Trade receivables consist of a large number of customers, spread across diverse industries across the United Kingdom. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Group does not have any significant credit risk exposure to any single counterparty.

28. Financial instruments continued

Loans and receivables continued

The Group's provision matrix is as follows:

Year ended 31 March 2021	Current £'000	<30 days £'000	31–60 days £'000	>60 days £'000	Total £'000
Expected credit loss rate	**0%**	**1%**	**7%**	**46%**	**5%**
Gross debtors (£'000)	**8,392**	**1,918**	**230**	**860**	**11,400**
Expected credit loss (£'000)	**(6)**	**(3)**	**(17)**	**(392)**	**(460)**
					10,940

Year ended 31 March 2020	Current £'000	<30 days £'000	31–60 days £'000	>60 days £'000	Total £'000
Expected credit loss rate	0%	1%	2%	36%	5%
Gross debtors (£'000)	7,080	1,473	500	1,282	10,335
Expected credit loss (£'000)	(13)	(10)	(10)	(460)	(493)
					9,842

Liquidity risk

The Group has an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity risk management requirements. The Group manages liquidity risk by maintaining adequate banking facilities and through cash flow forecasting, acquisition planning and monitoring working capital and capital expenditure requirements on an ongoing basis.

Amortised cost

Year ended 31 March 2021	Within 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Borrowings	**—**	**—**	**46,403**	**—**
Trade and other payables	**4,987**	**—**	**—**	**—**
Future gross lease payments	**602**	**448**	**115**	**—**
	5,589	**448**	**46,518**	**—**

Year ended 31 March 2020	Within 1 year £'000	1–2 years £'000	2–5 years £'000	More than 5 years £'000
Borrowings	—	40,443	7,293	—
Trade and other payables	7,121	—	—	—
Future gross lease payments	794	480	429	—
	7,915	40,923	7,722	—

Currency risk

The Group's operations are handled entirely in sterling.

Capital risk management

The Group is subject to the risk that its capital structure will not be sufficient to support the growth of the business. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. There were no changes to the Group's approach to capital management during the year.

As part of the banking arrangements, the Group is required to comply with certain covenants, including net debt to adjusted EBITDA and interest cover.

In order to maintain or adjust the capital structure, the Company may return capital to shareholders, issue new shares or sell assets (customer bases/relationships) to reduce debt.

Notes to the financial statements continued
For the year ended 31 March 2021

29. Business combinations

Contingent consideration obligations

Reconciliation of the movement in the fair value of contingent consideration:

	Advanced Computer Systems UK Limited £'000	Total £'000
At 1 April 2020	1,798	1,798
Settled in cash	(1,798)	(1,798)
At 31 March 2021	**—**	**—**

The earnout period for Advanced Computer Systems Limited ended on 31 March 2020 and deferred consideration of £1,797,738 was paid on 9 May 2020.

Hive up of Centrix Limited

On 1 February 2021 all assets and liabilities of Centrix Limited were hived up to the Company, with all services provided by Centrix Limited now being supported by a highly experienced enlarged team of professionals based at the Company premises in Fleet and Tunbridge Wells to provide greater resilience and depth of expertise.

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

	Book cost £'000	Fair value £'000
Intangible assets	852	6,960
Property, plant and equipment	230	230
Inventories	133	133
Trade and other receivables	5,053	5,053
Cash and cash equivalents	1,472	1,472
Trade and other payables	(2,894)	(2,894)
Income tax	(187)	(187)
Deferred tax	(5)	(5)
Net assets	**4,655**	**10,764**
Cash		—
Intra-group dividends		12,775
Fair value total consideration		12,775
Goodwill		**2,011**

The trade and other receivables are all considered recoverable.

30. Subsidiaries

	Country	Registered office	Class of share	% shareholding	Description
AdEPT Technology Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
AdEPT Telecom Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
Centrix Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
Comms Group UK Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Trading
Our IT Department Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
BrightVisions Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
Atomwide Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Trading
Shift F7 Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Trading
Shift F7 Group Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
ETS Communications Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
ETS Communications Holdings Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
Advanced Computer Systems Group Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
Advanced Computer Systems Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant
CAT Communications Limited	England & Wales	One Fleet Place, London EC4M 7WS	Ordinary	100	Dormant

31. Subsequent events

Acquisition of Datrix Limited

On 12 April 2021, the Company acquired the entire issued share capital of Datrix Limited ('Datrix'), a well-established, award-winning supplier of advanced cloud-based networking, communications and cyber security solutions, headquartered in London, with expertise in the growing Software Defined Wide Area Networking (SD-WAN) market focused on the public sector and healthcare.

Initial consideration of £9.0m, on a debt-free, cash-free basis, was paid in cash. Pursuant to the terms of the share purchase agreement, the effective date of the acquisition is 1 April 2021. Further contingent deferred consideration of up to £7.0m may be payable in cash dependent upon the trading performance of Datrix in the twelve month period ended 31 March 2022. The contingent deferred consideration will be determined by reference to the gross margin of the acquired business and applying the contingent deferred consideration calculation as specified in the share purchase agreement. The fair value of the assets and the contingent consideration liability have not yet been identified at the date of these results as the completion balance sheet was not available.

The last filed statutory accounts of Datrix for the year ended 30 June 2020 reported turnover, operating loss and loss before tax of £10.3m, £0.1m and £0.1m respectively. There was £0.2m of capital expenditure in the year ended 30 June 2020. Net liabilities and gross assets at that date were £2.1m and £5.5m respectively. Acquisition related costs will be recognised as an expense in the statement of comprehensive income for the year ending 31 March 2022.

Company information

Directors
Ian Fishwick
Roger Wilson
Richard Bligh
Craig Wilson
Phil Race
John Swaite
Andy Lovett

Secretary
Dentons Secretaries Limited

Company number
4682431

Registered office
One Fleet Place
London EC4M 7WS

Contact details
T: 0344 5577 300
E: business.services@adept.co.uk
W: www.adept.co.uk

Auditor
Crowe U.K. LLP
Chartered accountants and registered auditor
40-46 High Street
Maidstone
Kent ME14 1JH

Bankers
National Westminster Bank plc
135 Bishopsgate
London EC2M 3UR

Bank of Ireland
Floor 3A, Baggot Plaza
27–33 Upper Baggot Street, Ballsbridge
Dublin 4, Ireland

Nominated adviser and broker
N+1 Singer
1 Bartholomew Lane
London EC2N 2AX

Solicitors
CrippsPG LLP
22 Mount Ephraim
Tunbridge Wells
Kent TN4 8AS

Registrars
Computershare Investor Services plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 6ZY

Glossary

21CN	The 21st Century Network programme is BT's network transformation project to move its telephone network from the PSTN to an IP system
ADSL	Asymmetric digital subscriber line technology enables data transmission over existing copper wiring at data rates several hundred times faster than analogue modems, providing for simultaneous delivery of voice, video and data
CCS framework	Crown Commercial Service framework
Churn	The turnover rate of revenue for customers either joining or leaving a service over a particular time
The Company	AdEPT Technology Group plc
Companies Act	Companies Act 2006
DSL	Digital subscriber line services are a family of wide area technologies that are used to transmit digital data over telephone lines
Underlying EBITDA	Earnings before acquisition costs, share options, interest, taxation, depreciation and amortisation
ECTA	The European Competitive Telecommunications Association
The Group	The Company, its subsidiaries and entities which are joint ventures
IP	Internet protocol is the packet data protocol used for the routing and carriage of messages across the internet and similar networks. IP performs the addressing function and contains some control information to allow packets to be routed through networks
IP telephony	Internet protocol telephony is a term for phone systems that use the internet protocol's packet-switched connections to exchange information rather than the dedicated circuit-switched connections of the PSTN
ISDN	Integrated services digital network is a set of communication standards for simultaneous digital transmission of voice, video, data and other network services over the traditional circuits of the PSTN
LIBOR	The London Interbank Offered Rate is the average interest rate estimated by leading banks in London that the average leading bank would be charged if borrowing from other banks
MPLS networks	Multi-protocol label switching is a mechanism in high performance telecommunications networks that directs data from one network node to the next based on short path labels rather than long network addresses, avoiding complex lookups in a routing table
Operating profit	Profit before finance costs and taxation
Optical Spectrum Services (OSA/OSEA)	Secure, permanently connected, high speed data circuits that use dense wavelength division multi-plexing (DWDM) technology over optical fibre links
PSTN	The public switched telephone network is the world's collection of interconnected voice-oriented public telephone networks, both commercial and government owned
Single analogue line	The most common form of telephone line, used to service most homes and small businesses
SIP	Session initiation protocol is a signalling protocol for initiating and controlling users' multi-media communication sessions in an IP-based network
Telephony Service Framework (RM1045)	A multi-supplier pan-government framework for the purchase of telephony services
Tier-1 suppliers	The most important members of a supply chain, supplying components directly to the original equipment manufacturer that set up the chain
Corporate Governance Code	Corporate Governance Code published by Quoted Companies Alliance (QCA)
VoIP	Voice over Internet Protocol

Financial statements

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Produced by
designportfolio

AdEPT Technology Group plc
77 Mount Ephraim
Tunbridge Wells
Kent TN4 8BS

T: 0344 5577 300
F: 0344 5577 301
E: business.services@adept.co.uk

www.adept.co.uk