Adept4 plc
(“Adept4”, the “Group” or the “Company”)

Preliminary results for the year ended 30 September 2017

Adept4 plc (AD4) the AIM quoted provider of IT as a Service is pleased to announce preliminary results for the year ended 30 September 2017.

Highlights for the year

Financial
- Revenues of £10.3m (FY16: £4.9m[1])
- Gross profit margin of 60% (FY16: 62%)
- Recurring revenues of £7.3m (FY16: £3.2m), representing 71% of total revenues (FY16: 65%)
- Recurring gross profit covers 96% of trading overheads[2]
- Adjusted trading Group EBITDA[3] of £1.5m (FY16: £0.9m[1])
- Trading Group EBITDA[4] of £1.2m (FY16: £0.9m)
- Group EBITDA of £0.6m (FY16: £0.1m)
- Loss before tax for the year of £0.8m (FY16: £1.4m)
- £2.9m cash at bank at 30 September 2017 (FY16: £4.3m) resulting in net debt of £2.0m[5] (FY16: £1.6m)

Operational
- Creation of single operating platform: one system, one operational structure, one brand, one website and one business
- Significant revenue growth in key Microsoft areas of Azure and Office 365
- Increased offering of complementary solutions, building on our Microsoft and telephony legacy through successful reseller partnerships, yielding results

Post-year-end highlights
- Addition of further complementary solutions to the portfolio to enhance our IT Security offering as part of ITaaS
- Further management changes to strengthen the day to day operational management of the business and enhance credibility in cloud services

1 From continuing operations.
2 Other operating expenses before head office and plc costs.
3 Adjusted trading Group EBITDA represents earnings before interest, tax, depreciation and amortisation, share-based costs, separately identifiable costs and head office and plc costs of £0.9m (FY16: £0.8m).
4 Trading Group EBITDA represents earnings before interest, tax, depreciation and amortisation, share-based costs, separately identifiable costs and plc costs of £0.6m (FY16: £0.8m).
5 Net debt represents cash and cash equivalents of £2.9m (FY16: £4.3m) and short-term and long-term borrowings of £4.9m (FY16: £5.9m).

Simon Duckworth, Chairman of Adept4, commented:

“The creation of a single operating platform for future growth has been at the heart of everything that we have sought to do in the last 12 months. The successful establishment of an integrated business with a single brand, proposition, structure and platform was imperative, and I am pleased to report our success in achieving this objective. We look forward to success in the future with this business model.”

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This announcement contains inside information.

Chairman’s statement

Introduction
I am pleased to comment upon this year’s annual results, my first as Non-Executive Chairman, having stepped up to this role in August 2017.

If the year to 30 September 2016 (“FY16”) was a period of significant and substantial M&A activity, then the year to September 2017 (“FY17”) was a period of integration, consolidation and rationalisation.

The creation of a single operating platform for future growth and acquisitions has been at the heart of everything that we have sought to do in the year. The successful establishment of an integrated business with a single brand, proposition, structure and platform was imperative, and I am pleased to report our success in achieving this objective.

Results
Our results for the period have demonstrated progress in a number of areas:

- revenue for the period was £10.3m (FY16: £4.9m), an increase of 7% on a like for like basis;
- recurring revenues were £7.3m (FY16: £3.2m), an increase of 9% on a like for like basis, and represented 71% of total revenues;
- we increased spend and customers with Microsoft’s Cloud offering (under our Cloud Solution Partner relationship) by 168% and 313% respectively (on a like for like basis), demonstrating the success of this reseller arrangement and the potential for future growth;
- our telephony business (which was formerly the Weston Communications Limited business) increased its revenues by 9% (on a like for like basis), demonstrating the important role of telephony in our solution set for our customer base;
- adjusted trading Group EBITDA was £1.5m (FY16: £0.9m);
- Group EBITDA was £0.6m (FY16: £0.1m); and
- loss for the period was £0.6m (FY16 £0.6m).

We finished the year with cash balances of £2.9m. Additionally, the performance criteria for achievement of the earn out relating to Adept4 Managed IT Limited were not achieved by the vendors of the business and therefore the full value of the contingent consideration accrued (of £1.1m) has been written back.

People
We remain a service-based business and our people are the key to our success. We understand that in reshaping a number of businesses into one business the change process can be painful. I would therefore particularly like to thank our staff for their endeavours through the year and for their dedication to creating the single operating platform we now have. At times it has not been easy but we are now just beginning to reap the rewards. The benefits of a larger integrated group also open up opportunities for our staff to progress in terms of skills and seniority. It has been particularly gratifying that a significant number of our staff have grasped these opportunities and we have seen a number of internal promotions during the year.

Board
There have also been changes at Board level during the year. Gavin Lyons stepped down from the Board as Executive Chairman on 1 August 2017 at which point I assumed the role of Non-Executive Chairman. Jill Colligan was appointed to the Board as Executive Director on 20 July 2017 to assist with the Group’s continuing development and strategy implementation.

Strategy
Our strategy, which is articulated more fully in the Business Review, remains very straightforward. We aim to provide IT as a Service to our customers on a pay-as-you-go basis, based on consumption of the service and utilising an asset-light delivery model (reducing our investment and leveraging public Cloud providers’ investments, particularly those of Microsoft). To succeed we need to “delight” our customers and we need to sufficiently differentiate ourselves from the competition.

As we have moved from consolidation and rationalisation of our operating platform we have been able to fully focus on “delighting” the customer. We operate in an industry where things will go wrong no matter how good the service is, and “delighting” the customer is not just about recovery and rescue from these situations but is also about dealing with customers with honesty and integrity. We have rolled out an "emoji" feedback mechanism with our ticketing system which provides real-time insight into levels of customer satisfaction – and the feedback we are receiving is indicating that we are getting this right.

We also continue to invest time and resource into the solution set we offer, identifying new technologies and solutions which fulfil our customers’ needs. We have had some real success in this area with Anywhere 365, a Skype-native contact centre solution, and a number of other emerging technologies which address our customers’ needs – particularly IT Security. This aspect of our development is a crucial part of ensuring we have a differentiator from the competition.

We also make no excuse for being very firmly a Microsoft Cloud Solution Partner and we regard this as an integral part of our strategy. We will continue to seek to align ourselves with Microsoft’s go-to-market strategy and to make ourselves as relevant as possible to Microsoft. This is evidenced by the recent appointment in our business of a former Microsoft Partner Technology Strategist as Chief Technical Officer and our continued investment in further Microsoft accreditation.

Outlook
A continued shift to the Cloud, consumptive pricing for IT ("pay as you go") and increasing focus on security will remain the defining growth factors in our market.

We have confidence that our business model is addressing these issues, and our continued success will be dependent upon our

ability to execute effectively.

We also remain vigilant in looking at acquisition opportunities that provide the appropriate mix of skills, capability and contribution at the right price, and which will enhance growth in our business and increase shareholder value.

I look forward to increased success in the future and to providing further updates on our progress.

Simon Duckworth
Non-Executive Chairman
16 January 2018

Business overview

Overview
It is worth remembering that whilst the three businesses that came together in FY16 to form the Group were ostensibly providing similar and aligned services they were doing this with very different operating models and, just as importantly, with fundamentally different cultures.

In last year's accounts we outlined the value proposition, markets and culture we intended to pursue and our strategy for doing this. The focus throughout the year under review, for management and staff alike, was to be one of integration and consolidation and we are satisfied with our progress in this area.

Significantly, during the year, we have:
- created a single operating platform established from the integration activities;
- pursued a Microsoft-focused, ITaaS-led strategy;
- cross-sold telephony (the Weston skillset) into the rest of the base;
- grown recurring revenues;
- created wider opportunities for staff and hence reduced staff attrition; and
- developed and expanded our solutions portfolio to continue to make ourselves relevant to our customers.

Our progress during the period, and the lessons learned from the integration, have positioned us well for future growth.

Market developments and our target market place
The factors that have driven growth in the macro ITaaS market show no signs of abating. Increasing complexity, budgetary pressures, flexibility, high-profile security breaches and resource scarcity all remain relevant and are the key drivers of growth in the market.

More importantly customers are now fully aware of the benefits that can evolve from cloud computing, and the cultural and historical issues and sensitivities around not owning the infrastructure on which a business' data and systems reside are largely being consigned to history.

Culturally businesses are also embracing the use of IT as a tool to improve competitiveness and capability rather than simply just a cost of doing business. This cultural shift is moving down the business chain with smaller businesses just as likely to be receptive to this as larger businesses. The recent evolution of Microsoft's Office 365 Cloud offering is a clear indicator of this with its emphasis on teamwork, collaboration, analytics and machine learning being delivered as standard to businesses big and small.

The UK SME market for ITaaS, with one or two notable sectors, remains relatively strong and growing. The providers to that market remain fragmented and regionalised, and with the move to asset-light delivery models (relying upon Amazon, Microsoft and Google's infrastructure, to name but a few) the barriers to entry are remarkably low. Capability, customer service and price are the key buying criteria.

With the establishment of a clear operating base in the North of England during the last twelve months, putting us close to our customers, we remain ideally placed to service the fast-growing SME base in the Manchester, Liverpool and Leeds areas (M62 corridor) as well as the wider region.

Our "sweet" spot in terms of customers remains the 50 to 250-seat organisation where we can add the greatest value and bring to bear the broad spectrum of capabilities that we are able to offer – including access to a dedicated software team with substantial development experience.

We are proud to be a Microsoft reseller. We continue to maintain our Tier 1 status as a Cloud Solution Partner. Microsoft's Cloud-based offering continues to resonate with customers as evidenced by its continuing quarterly growth in revenues in excess of 90% and it is now a $20bn run rate business per quarter. The scale and size of this market is driving its own ecosystem which provides further opportunities for us.

What do we do and how do we deliver?
Four-stage approach to our customers and the provision of a corporate IT department
In bringing together the Group under one proposition last year we were clear that our approach to our customers was built around a four-stage method: stabilise, leverage, transform and innovate (SLTI). This approach leverages the expertise we have in the business, acts as a differentiator to competitors and allows us to continue to build value from customers by adding additional services as we deepen the relationship with the customer beyond the initial engagement. We can only do this by having experienced technical resource engaging with our customers regularly and understanding their business, acting, in essence, as consultant CTOs or equivalent. In providing this level of service we also see great value in our software team, which is able to deliver bespoke systems. Clearly there is an increased cost of delivery with such an approach but, ultimately, we believe it

cultivates customer relationships which endure.

A recent example of this approach working in practice concerns our largest customer, where through strategic input from us we have been able to streamline and drive efficiencies for it in its contact centre by utilising technology to address its payment card (PCI) needs whilst leveraging its existing assets.

Close to the customer, small enough to care and large enough to cope
In integrating the businesses, we have been careful to retain the reasons why customers historically dealt with us.

Our larger customers interact with us primarily through our account management, technical account managers and our 24/7/365 ITIL service desk. Our smaller customers interact with us through account managers and field service engineers.

During the year we have therefore consolidated our first line service desk into our Warrington office – this is primarily triage, basic fault resolution and non-urgent adds/move and changes. Our second line service desk and field service engineers have remained in the office local to the customer and are therefore on hand to provide that personal level of service.

Consumptive pricing
Our customers all wish to ensure that they only pay for what they receive. The days of fixed/inflexible costs are long gone. Our customers need to be able to flex services and pricing to suit their resource needs and allow them to budget more effectively. We understand this and seek to provide tailored, flexible solutions which are billed monthly and stepped up or down dependent upon the "amount" consumed.

Achievements
We highlighted earlier the integration of the combined businesses into a single operating platform – this undoubtedly has been the single largest achievement during the period.

We have also built revenues with existing customers through our SLTI approach and attracted new customers. Some of the highlights include the following:

- On the telephony front we have:
  - successfully completed a high-profile hardware refresh for a local council in the North of England worth £0.2m;
  - re-signed, for a further three years at 50% uplift, a maintenance agreement for a large, leading university. We believe further value will accrue as we leverage our Skype for Business skills to assist them with future migration to IP-based telephony; and
  - installed and deployed a Skype-native contact centre for an outsourcing provider in less than two weeks and closed a further three opportunities worth £0.3m.

- On the ITaaS front we have:
  - secured a three-year contract for ITaaS covering a range of managed services, including IT helpdesk support, managed infrastructure services and transition consulting worth £0.8m;
  - maintained customer retention at over 90% during a time of substantial change in the business; and
  - expanded our security offering by selling a managed firewall and monitoring service to a number of our customers, including a professional services organisation and a business in the retail motor trade. We are monitoring for activity against a pre-determined number of "use cases" based on automated analysis of log activity. This, combined with the deployment of Microsoft SPE tools for two of our larger customers, is the start of building an IT Security offering beyond traditional anti-virus and anti-spam product resell.

- In respect of our Microsoft capability we have:
  - grown our revenues and customers with Microsoft by 168% and 313% respectively – which helps further cement our continuing relationship with them;
  - implemented a 600 plus user Office 365 deployment. We were chosen for our expertise and our insight into the emerging services associated with Office 365;
  - been acknowledged at the Microsoft Cloud and Hosting Summit 2017 for our use of Azure to provide a Disaster as a Recovery service; and
  - post the year end we have been delighted to welcome a former Partner Technology Strategist from Microsoft's Cloud and Hosting unit as our new Chief Technical Officer. We believe this is a great coup and will enable us to further develop our Microsoft-focused approach.

Developments
We continue to assess how we remain relevant and add value to our customers. Given our role as a proxy IT department to our customers this inevitably involves continuing to assess and determine technologies which will assist our customers but for which we have the capability, both financially and technically, and which align with our asset-light strategy. Our key areas of development in the next twelve months are as follows:

- May 2018 sees the introduction into UK legislation of General Data Protection Regulations. This, combined with recent high-profile ransomware attacks, has continued to push IT Security to the fore of most businesses' thoughts. As indicated above we have an emerging solution set for this area but recognise the need to continue to build out this capability;
- in recent months we have received an order intake of £0.3m for Anywhere 365, a Skype-native contact centre. We are seeing real traction in the interaction between PBX telephony and Skype for Business, and increasingly customers are looking to benefit from both the cost and flexibility of Skype. Given our joint heritage in both traditional PBX telephony and Skype we will be looking to build upon our existing base to secure further business; and
- following on from the year end we have further streamlined the management team responsible for the day to day operations of the business. We have brought in a Director of Operations from a large metropolitan police authority and a CTO from Microsoft as detailed above. These appointments, combined with our recently appointed Managing Director, David Griffiths, who has over

20 years of Managed IT experience, provide us with an effective team to guide the trading business through its next phase of development.

Challenges
In executing any business plan it is important to be prepared and mitigate against the obvious risks and challenges we face.

However, there are a number of key challenges which we will need to address through this current year.

Microsoft's significant growth in Cloud revenues and its recent refocus on partners means that we will need to work harder to remain relevant to it. In earlier years we have benefited from a close relationship with Microsoft through our CSP Tier 1 status and through our willingness to "early adopt" some of its Cloud technologies. Primarily we are going to need to improve and enhance our accreditations and also look within our customer base, where we can build vertical sector-based managed service solutions. The recent appointment of our CTO, who has spent his last six years in the very part of Microsoft we engage with, should uniquely position us to address this challenge.

We need to increase our level of training and accreditation in a number of technologies. Over the last year we have made use of apprenticeships to bring entry level staff into the business at first line support level – we now need to work with and encourage the development of these employees and others who wish to develop a career in IT through us. This is something we are actively targeting with both resource and budget.

The last twelve months has seen input prices rise for resold services – primarily software/hardware from US-based vendors – as a consequence of sterling's depreciation following the EU referendum. So far we have been able to pass through these price increases, but this is not something we can guarantee in the future.

Our people
Our people remain the most important component of our business. We strive to create, and remain committed to creating, a working environment in which all members of staff can grow and develop their skills. Our commitment to training and development will increase given our comments above on the need for us to improve and extend our accreditations. Through the year the integration into one business has provided opportunities for a number of employees to further their career ambitions through internal promotions and we seek to continue to achieve this. We also believe that establishing a shared culture and set of behaviours takes a little while when effecting the level of change we have seen during the last twelve months – so we continue to work at this.

We have continued to engage all employees half yearly with the progress of the business through a dedicated Company "away" day when we can bring all the teams together. We want to make the Group a fun and fulfilling place of work and, in that regard, we are only just at the start of the process.

Summary and outlook
In summary, the last twelve months has been a period of significant change and progress and we have made good headway with our strategy of growing a profitable, customer-focused ITaaS business, adopting an asset-light approach.
We are now positioned to drive the business forward and we look forward to providing further updates through the current financial year.

Financial review

The year under review represents the first full year of trading for all three businesses acquired during the previous financial year. To provide some context of the progress made by the business in certain instances we have compared against the like for like performance of the business on a pro-forma basis for the year ended 30 September 2016 rather than the statutory numbers which incorporate eight months' trading for Ancar-B Technologies Limited ("Ancar") and Weston Communications Limited ("Weston") and four months' trading for Adept4 Managed IT Limited ("MIT") (see Note 3).

Revenue and gross margin
Group revenue for the year was £10.3m (FY16: £4.9m), which represented a 7% increase on a like for like basis. All acquired businesses produced top-line revenue growth on a like for like basis – with the telephony business of Weston generating the highest growth of 9% highlighting the continued importance of telephony sales to our ITaaS solutions portfolio.

This produced a gross profit of £6.2m (FY16: £3.0m) representing a very healthy gross margin of 60% (FY16: 62%). The slight reduction in margin from last year is primarily attributable to our sales mix, increased direct input costs and the migration of some services from our infrastructure to a third party (Microsoft) in line with our asset-light strategy. The latter point, whilst initially resulting in some margin reduction, will provide greater scope to increase average revenue per customer and will clearly reduce the future demand for capital expenditure.

The business is now very firmly based around three segments: product, professional services and recurring services, with the initial sale of product or professional services eventually leading to and driving the future sale of recurring services.

Segment highlights
Product
Revenues from product sales were £2.2m (FY16: £1.1m) generating a gross profit of £1.0m (FY16: £0.5m) and gross margin of 45% (FY16: 40%). We benefited from a significant contribution from both telephony and product sales to the smaller end of our customer base where we enjoy improved margins. Specific highlights in the year included:

- a hardware refresh for a large, local authority telephony system worth £0.2m;
- the sale of Anywhere 365 contact centre software to an international contact centre; and

- continued and repeat hardware refreshes at both an infrastructure and user level from a significant section of our customer base. This demonstrates the trust our customers place in us to look after their IT estate.

Recurring Services
Revenues from Recurring Services were £7.3m (FY16: £3.2m) generating a gross profit of £4.4m (FY16: £2.0m) and gross margin of 60% (FY16: 63%). Gross margin is marginally down from last year due to the migration of certain hosted services from in-house (predominantly hosted email and other hosting services) to Microsoft. Whilst there is some short-term margin erosion this strategy reduces risk and cost of ownership for us and allows for a more flexible basis to sell/upsell additional services to the customer.

On a like for like basis, revenues from Recurring Services increased by 9% demonstrating the success of our strategy to focus on this area through pushing consumptive pricing and "pay-as-you-go" IT. The proportion of our total revenue derived from Recurring Services is at 71% providing a strong and visible future revenue base.

Specific highlights in the year included:

- implementation and provision of a three-year contract for ITaaS covering a range of managed services, including IT helpdesk support and managed infrastructure services, worth up to £0.8m;
- provision of a number of managed security services utilising the Microsoft suite of security tools, third-party vendors and deployment of our own SIEM service; and
- renewal of a telephony maintenance support contract for a large leading university for a further three years against strong competition, worth £0.3m.

Professional Services
Revenues from Professional Services were £0.8m (FY16: £0.6m) generating a gross profit of £0.8m (FY16: £0.5m) as permanent employee costs are included in overheads. Whilst the "run rate" business from this source was in line with previous years we undertook a smaller number of large transition projects in the period. We were successful in securing two orders towards the end of the financial year for £0.3m for large transition projects, the majority of which falls to be delivered in the current financial year (year ended 30 September 2018).

Specific highlights in the year included:

- implementation consultancy for rolling out Office 365 across 600 plus users for an online retailer worth £0.1m; and
- transitional infrastructure consultancy involved in onboarding a number of managed service customers, including a housebuilder and a number of professional services organisations.

Operating results – costs and EBITDA
In presenting the results for the Group last year and at the half year, we focused on two key metrics: trading Group EBITDA and Group EBITDA.

Trading Group EBITDA was defined as Group profit before interest, tax, depreciation and amortisation, share-based payment costs, separately identifiable costs, plc costs and head office costs. This description was used in order to ensure meaningful comparison with the pro-forma results of the three businesses that came together to form the Group on a like for like basis. For transparency, and for reasons more fully detailed below, we have now reclassified this as adjusted trading Group EBITDA. In future periods we will no longer use this measure as a reportable metric.

Trading overheads were £4.6m (FY16: £2.1m), of which staff costs comprised 81% (FY16: 78%). Given the level of gross profit generated from recurring revenue this meant that we achieved 96% (FY16: 96%) coverage of the trading overhead base. Inevitably in a business which has integrated under a single operating platform there has been some upward pressure on salary costs through a combination of aligning roles and rates of pay. We have been able to partially mitigate against this by the consolidation of our first line service desk into a single location at the end of the financial year. The result of this is that the trading overheads entry monthly run rate flagged at the time of last year's results of £0.4m per month is broadly what we exited the year at, in spite of the higher activity levels.

Adjusted trading Group EBITDA for the year was £1.5m (FY16: £0.9m).

The presentation of adjusted trading EBITDA was done to provide a comparison with the underlying pro-forma results of the three acquired businesses. This has meant that certain costs in the year under review have not been categorised as trading as it was felt that their contribution in the year was to the integration of a single platform and these had also not previously been incurred by the three acquired businesses. These costs included consultancy and rebranding costs and amounted to £0.4m.

Trading Group EBITDA, after including these costs, was £1.2m (FY16: £0.9m).

Moving forward we have recruited a full-time Operations Director to run the operations of the business in steady state and as indicated earlier now have a full-time Managing Director fully responsible for running the trading business. Our marketing activities are now focused on tactical activities aligned with our sales plan and therefore likely to be directly income generating rather than simply creating brand capital. It is therefore entirely appropriate to include these costs, running at £35,000 per month in the trading overhead base for the current year to 30 September 2018 onwards. The remaining annual head office costs of £0.6m relate entirely to the costs associated with running the plc and cover the costs of the Executive Chairman (left 1 August 2017), the Group CFO (who is now also responsible for M&A), the remainder of the Board and professional fees related to the Company's AIM listing and Group legal matters. Following the structural changes referred to above, the costs of running the plc are expected to reduce in 2018.

Group EBITDA for the year was £0.6m (FY16: £0.1m).

Loss for the period and separately identifiable income/costs
The year was one of integration, which necessitated further costs as follows:

- impairment of goodwill of £0.2m;
- integration and reorganisation costs of £0.1m;
- provision for dispute with Chess ICT Limited of £0.1m; and
- termination payment to Executive Chairman of £0.1m.

At the interims we identified the need for a provision of £0.1m which related to a dispute arising from the sale of the trade and assets of Pinnacle CDT Limited ("CDT") to Chess ICT Limited ("Chess") in May 2016. The dispute related to the recovery of an asset included in this sale. We have now resolved this dispute and the £0.1m became payable on 2 October 2017. Conditional upon the recovery of this asset no further sums will be due; however, should this not be the case then a further payment of up to a maximum of £0.1m will be payable to Chess in September 2018. This amount has not been provided in the financial statements as recovery is considered likely.

The performance criteria for achievement of the earn out relating to the acquisition of MIT were not achieved by the vendors of that business and therefore the full value of the contingent consideration accrued (of £1.1m) has been written back. As a result of this we considered the impact of this specifically on the value of intangibles arising on the acquisition of MIT, based on current budgets and forecasts for the Group an impairment charge of £0.2m against goodwill was made.

Amortisation of intangible assets was £0.9m (FY16: £0.4m) representing a full-year charge for the acquisitions made during the last financial year.

Interest cost was £0.8m (FY16: £0.4m), of which £0.4m was cash cost and the remainder was the release to the income statement of the fair value adjustments to the deferred and earn out consideration relating to the acquisition of MIT and the Business Growth Fund (BGF) loan notes.

Loss for the year from continuing operations before tax was £0.8m (FY16: £1.4m).

Statement of Financial Position and cash
As referred to above, the performance criteria on the MIT earn out were not met and therefore no earn out consideration will be payable, and as a result the goodwill has been impaired by £0.2m.

Trade and other receivables at the period end were £2.3m (FY16: £1.6m). The increase in this category was primarily due to higher trade receivables (an increase of £0.3m) based on activity levels and a marginal deterioration in collections (see comment below on cash) and prepaid costs relating to three managed service contracts of £0.2m.

Cash balances at 30 September 2017 were £2.9m (FY16: £4.3m), which excludes two large payments of £0.3m in total which were due on the last day of the year but were received on 2 October 2017.

Net debt was £2.0m (FY16: £1.6m). This includes the deferred consideration of £1.0m payable to the sellers of MIT on 2 January 2018. There is currently an ongoing legal dispute with the vendors of MIT which has resulted in a delay in the payment of the deferred consideration. We continue to recognise the full amount of the deferred consideration due to the early stage of this dispute, which has no effect on current performance and does not relate to the performance of MIT since acquisition.

The main components of the Group's cash flows during the period were as follows:

- cash used in operating activities of £0.1m (including separately identifiable costs of £0.3m and head office and Plc costs of £0.9m);
- payment of corporation tax on the acquired businesses and sale of CDT of £0.4m;
- cash interest costs of £0.4m;
- deferred consideration of £0.3m; and
- acquisition of fixed assets of £0.2m.

Ian Winn
Group CFO and M&A Director
16 January 2018

Consolidated income statement

for the year ended 30 September 2017

	Note	**2017 £'000**	2016 £'000
Revenue	3	**10,301**	4,939
Cost of sales		**(4,137)**	(1,897)
Gross profit		**6,164**	3,042
Other operating expenses excluding head office costs and plc costs		**(4,627)**	(2,124)
Adjusted trading Group EBITDA		**1,537**	918
Head office costs		**(378)**	—
Trading Group EBITDA		**1,159**	918
Plc costs		**(570)**	(804)
Total other operating expenses		**(5,575)**	(2,928)
Profit from continuing operations before amortisation, depreciation, share-based payment		**589**	114

costs and separately identifiable costs			
Amortisation of intangible assets	7	**(880)**	(413)
Depreciation		**(162)**	(74)
Separately identifiable income/(costs)	4	**626**	(615)
Share-based payments		**(162)**	(61)
Operating profit/(loss) from continuing operations	4	**11**	(1,049)
Interest receivable		**—**	2
Interest payable		**(842)**	(360)
Net finance expense	5	**(842)**	(358)
Loss before tax		**(831)**	(1,407)
Taxation		**248**	83
Loss for the period and total comprehensive loss from continuing operations attributable to the equity holders of the parent		**(583)**	(1,324)
Discontinued operations			
Profit for the period from discontinued operations		**—**	725
Loss for the period		**(583)**	(599)
Loss per share			
– Basic and fully diluted – continuing operations	6	**(0.26)p**	(0.80)p
– Basic and fully diluted – discontinued operations	6	**—**	0.44p
– Basic and fully diluted	6	**(0.26)p**	(0.36)p

Consolidated statement of financial position

as at 30 September 2017

	Note	**30 September 2017 £'000**	30 September 2016 £'000
Non-current assets			
Intangible assets	7	**11,804**	12,636
Property, plant and equipment		**228**	255
Total non-current assets		**12,032**	12,891
Current assets			
Inventories		**66**	22
Trade and other receivables	8	**2,349**	1,568
Cash and cash equivalents		**2,905**	4,266
Total current assets		**5,320**	5,856
Total assets		**17,352**	18,747
Current liabilities			
Short-term borrowings		**(1,012)**	(298)
Trade and other payables		**(1,203)**	(862)
Other taxes and social security costs		**(490)**	(649)
Accruals and deferred income		**(1,590)**	(1,539)
Total current liabilities	9	**(4,295)**	(3,348)
Non-current liabilities			
Long-term borrowings	9	**(3,914)**	(5,587)
Deferred tax liability		**(1,416)**	(1,664)
Total non-current liabilities		**(5,330)**	(7,251)
Total liabilities		**(9,625)**	(10,599)
Net assets		**7,727**	8,148
Equity			
Share capital		**2,271**	2,271
Share premium account		**11,337**	11,337
Capital redemption reserve		**6,489**	6,489
Merger reserve		**1,997**	1,997
Other reserve		**1,601**	1,439
Retained earnings		**(15,968)**	(15,385)
Total equity		**7,727**	8,148

Consolidated statement of changes in equity

for the year ended 30 September 2017

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Fair value adjustment £'000	Retained earnings £'000	Total £'000
At 1 October 2015	592	7,840	6,489	283	51	(1,064)	(13,789)	402
Loss and total comprehensive loss for the period	—	—	—	—	—	—	(599)	(599)
Transactions with owners								
Share issue	1,679	3,657	—	1,714	—	—	—	7,050
Share-based payments	—	—	—	—	61	—	—	61
Fair value of equity in the BGF	—	—	—	—	1,394	—	—	1,394

loan								
Fair value of interest in the BGF loan	—	—	—	—	(67)	—	67	—
Reclassification of reserves	—	—	—	—	—	1,064	(1,064)	—
Expenses on share issue	—	(160)	—	—	—	—	—	(160)
Total transactions with owners	1,679	3,497	—	1,714	1,388	1,064	(997)	8,345
Total movements	1,679	3,497	—	1,714	1,388	1,064	(1,596)	7,746
Equity at 30 September 2016	2,271	11,337	6,489	1,997	1,439	—	(15,385)	8,148

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Fair value adjustment £'000	Retained earnings £'000	Total £'000
At 1 October 2016	2,271	11,337	6,489	1,997	1,439	—	(15,385)	8,148
Loss and total comprehensive loss for the period	—	—	—	—	—	—	(583)	(583)
Transactions with owners								
Share-based payments	—	—	—	—	162	—	—	162
Total transactions with owners	—	—	—	—	162	—	—	162
Total movements	—	—	—	—	162	—	(583)	(421)
Equity at 30 September 2017	**2,271**	**11,337**	**6,489**	**1,997**	**1,601**	**—**	**(15,968)**	**7,727**

Consolidated statement of cash flows

for the year ended 30 September 2017

	2017 £'000	2016 £'000
Cash flows from operating activities		
Loss before taxation	**(831)**	(1,407)
Adjustments for:		
Depreciation	**162**	74
Amortisation	**880**	413
Share-based payments	**162**	61
Net finance expense	**842**	358
Write back of contingent consideration	**(1,122)**	—
Impairment of goodwill	**200**	—
Increase in trade and other receivables	**(781)**	(98)
Taxation	**223**	(151)
(Increase)/decrease in inventories	**(44)**	1
Increase in trade payables, accruals and deferred income	**257**	185
Net cash used in operating activities	**(52)**	(564)
Cash flows from taxation	**(383)**	—
Cash flows from investing activities		
Purchase of property, plant and equipment	**(248)**	(42)
Acquisition of subsidiaries, net of cash acquired	**—**	(6,892)
Interest received	**—**	2
Net cash used in investing activities	**(248)**	(6,932)
Cash flows from financing activities		
Issue of shares	**—**	4,801
Receipt of loan funds	**—**	5,000
Receipt of finance lease	**16**	51
Payment of finance lease liabilities	**(30)**	(16)
Interest paid	**(404)**	(147)
Expenses paid in connection with share issue	**—**	(161)
Net cash (used in)/from financing activities	**(418)**	9,528
Cash flows from discontinued operations		
Cash outflow from operations of disposal group	**—**	(832)
Sale of discontinued operations	**—**	2,800
Acquisition of remaining shares in Accent Telecom North Limited	**(260)**	(327)
Net cash flows (used in)/from discontinued operations	**(260)**	1,641
Net (decrease)/increase in cash	**(1,361)**	3,673
Cash at bank and in hand at beginning of period	**4,266**	593
Cash at bank and in hand at end of period	**2,905**	4,266
Comprising:		
Cash at bank and in hand	**2,905**	4,266

Notes to the consolidated financial information

1. General Information

Adept4 plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is 5 Fleet Place, London, EC4M 7RD.

The Board of Directors approved this preliminary announcement on 16 January 2017. Whilst the financial information included in the preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as endorsed by the European Union, this announcement does not itself contain sufficient information to comply with all the disclosure requirements of IFRS and does not constitute statutory accounts of the Company for the years ended 30 September 2016 and 2017.

The financial information set out in this preliminary announcement does not constitute the Group's financial statements for the periods ended 30 September 2016 and 2017. The financial information for the period ended 30 September 2016 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2017 will be delivered to the Registrar of Companies following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

2. Basis of Preparation

This financial information has been prepared in accordance with the principles of International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") recommendations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. For the purposes of the preparation of the consolidated financial information, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 October 2016. There have been no changes in accounting policies during the year. The financial information has been prepared under the historical cost convention unless otherwise stated

3. Segment reporting

The chief operating decision maker has been identified as the Executive Directors of the Company, who review the Group's internal reporting in order to assess performance and to allocate resources. The Directors present below the results for 2017 and 2016 based on these reportable operating segments.

Product	– This segment comprises the resale of solutions (hardware and software) from leading technology vendors.
Recurring Services ("Service")	– This segment comprises the provision of continuing IT services which have an ongoing billing and support element.
Professional Services ("PS")	– This segment comprises the provision of highly skilled resource to consult, design, install, configure and integrate IT technologies.
Plc costs ("PLC")	– This comprises the costs of running the Plc, incorporating the cost of the Board, listing costs and other professional service costs such as audit, tax, legal and Group insurance.

Information regarding the operation of the reportable segments is included below. Performance of the operating segments is assessed based on revenue and a measure of earnings before interest, depreciation and amortisation (EBITDA) before any allocation of Group overheads (this includes both head office and Plc costs) or charges for share-based payments. Segments are measured below on this basis.

The segment information is prepared using accounting policies consistent with those of the Group as a whole. The performance of the Group is reviewed by the Executive Directors on a segmental basis as has been disclosed. All segments are continuing operations.

3.1 Analysis of continuing results

By operating segment

	2017					2016				
	Product £'000	**Service £'000**	**PS £'000**	**PLC £'000**	**Total £'000**	Product £'000	Service £'000	PS £'000	PLC £'000	Total £'000
Total segment revenue	**2,232**	**7,316**	**753**	**—**	**10,301**	1,143	3,245	560	—	4,948
Inter-segment revenue	**—**	**—**	**—**	**—**	**—**	—	(9)	—	—	(9)
External revenue from continuing operations	**2,232**	**7,316**	**753**	**—**	**10,301**	1,143	3,236	560	—	4,939
Total segment gross profit from continuing operations	**1,000**	**4,414**	**750**	**—**	**6,164**	456	2,041	545	—	3,042
Adjusted trading Group EBITDA from continuing operations	**254**	**1,093**	**190**	**—**	**1,537**	138	616	164	—	918
Trading Group EBITDA from continuing operations	**193**	**822**	**144**	**—**	**1,159**	138	616	164	—	918
Plc costs	**—**	**—**	**—**	**(570)**	**(570)**	—	—	—	(804)	(804)
Amortisation	**(142)**	**(632)**	**(106)**	**—**	**(880)**	(61)	(277)	(75)	—	(413)
Depreciation	**(26)**	**(117)**	**(19)**	**—**	**(162)**	(12)	(48)	(14)	—	(74)
Share-based payment costs	**—**	**—**	**—**	**(162)**	**(162)**	—	—	—	(61)	(61)
Operating profit/(loss) from continuing operations before separately identifiable costs/(income)	**25**	**73**	**19**	**(732)**	**(615)**	65	291	75	(865)	(434)
Separately identifiable income/(costs)	**—**	**—**	**—**	**626**	**626**	—	—	—	(615)	(615)
Operating profit/(loss) from continuing operations	**25**	**73**	**19**	**(106)**	**11**	65	291	75	(1,480)	(1,049)
Interest receivable	**—**	**—**	**—**	**—**	**—**	—	—	—	2	2
Interest payable	**—**	**—**	**—**	**(842)**	**(842)**	—	—	—	(360)	(360)
Profit/(loss) before tax from continuing	**25**	**73**	**19**	**(948)**	**(831)**	65	291	75	(1,838)	(1,407)

operations										
Net assets	**1,103**	**4,663**	**827**	**1,134**	**7,727**	669	1,800	252	5,427	8,148

3.2 Continuing results – like for like

	2017				2016			
	Weston £'000	**Ancar £'000**	**MIT £'000**	**Total £'000**	Weston £'000	Ancar £'000	MIT £'000	Total £'000
Revenue	**2,419**	**2,556**	**5,326**	**10,301**	2,224	2,461	4,925	9,610
Recurring revenues				**7,316**				6,679

The table provides details of the performance for the twelve months ended 30 September 2017 and 2016 for the acquired businesses. The reported numbers for 2016 include results for months which predated acquisition by the Group. These numbers have been provided to report the performance of the Group on a like for like basis.

4. Operating profit/(loss) from continuing operations

	2017 £'000	2016 £'000
Loss from continuing operations is stated after charging:		
Depreciation of owned assets	**(162)**	(74)
Amortisation of intangibles	**(880)**	(413)
Research and development costs recognised as expense	**—**	(22)
Other operating lease rentals:		
– Buildings	**(114)**	(81)
Auditor's remuneration:		
– Audit of parent company	**(14)**	(14)
– Audit of subsidiary companies	**(36)**	(45)
– Audit-related assurance services	**(5)**	(5)
– Corporation tax services	**(18)**	(18)

Separately identifiable income/(costs)

Items that are material and non-recurring in nature are presented as separately identifiable income or costs in the Consolidated Income Statement, within the relevant account heading.

	2017 £'000	2016 £'000
Gain on sale of share in associate company (Stripe 21 Limited)	**—**	259
Write back of contingent consideration	**1,122**	—
Professional fees, broker fees and due diligence costs relating to acquisitions	**—**	(677)
Restructure costs relating to head office and acquisitions	**(121)**	(197)
Termination payment for G Lyons	**(75)**	—
Provision for dispute with Chess ICT Limited	**(100)**	—
Impairment of goodwill	**(200)**	—
Separately identifiable income/(costs)	**626**	(615)

5. Finance income and finance costs

Finance cost includes all interest-related income and expenses. The following amounts have been included in the Consolidated Income Statement line for the reporting periods presented:

	2017 £'000	2016 £'000
Interest income resulting from short-term bank deposits	**—**	2
Finance income	**—**	2
Interest expense resulting from:		
Finance leases	**4**	2
BGF loan notes	**400**	145
Effective interest on liability element of the BGF loan notes	**199**	67
Effective interest on deferred consideration relating to Adept4 Managed IT Ltd	**239**	146
Finance costs	**842**	360

In accordance with IFRS 3, business combinations were accounted for using the acquisition method, which required assets acquired and liabilities assumed to be measured at their fair values at the acquisition date. The acquisition of Adept4 Managed IT Ltd on 26 May 2016, for a total consideration of up to £7m, contained £1m of deferred consideration payable in January 2018 and £1.5m of contingent consideration payable in March 2018, based on the financial performance of the Group in the calendar year to December 2017. The fair value of the deferred and contingent consideration calculated at acquisition, using a discount rate of 16%, was calculated at £1.73m.

During the year, £239,000 (2016: £146,000) of effective interest was charged to the income statement. The contingent consideration, which was based on the financial performance of the Group in the calendar year 2017, has now been reassessed and, based on the stretching targets set, no contingent consideration will now be paid.

This has resulted in £1,122,000 being written back to the Consolidated Income Statement and a fair value of the deferred and contingent consideration payable at 30 September 2017 of £987,000.

6. Total and continuing loss per share

	2017 £'000	2016 £'000

Loss on continuing operations	**(583)**	(1,324)
Profit on discontinued operations	**—**	725
Loss attributable to ordinary shareholders	**(583)**	(599)

	Number	Number
Weighted average number of Ordinary Shares in issue, basic and diluted	**227,065,097**	165,891,459
Basic and fully diluted loss per share – continuing operations	**(0.26)p**	(0.80)p
Basic and fully diluted profit per share – discontinued operations	**—**	0.44p
Basic and diluted loss per share	**(0.26)p**	(0.36)p

Both the basic and diluted earnings per share have been calculated using the net profit/(loss) after taxation attributable to the shareholders of Adept4 Plc as the numerator.

7. Intangible assets

Intangible assets	Goodwill £'000	Maintenance contracts £'000	IT, billing and website systems £'000	Brand £'000	Customer lists £'000	Total £'000
Cost						
At 1 October 2015	206	100	764	—	4,281	5,351
Additions	4,312	—	—	1,157	8,166	13,635
Disposals	(206)	(100)	(764)	—	(4,867)	(5,937)
At 1 October 2016	4,312	—	—	1,157	7,580	13,049
Additions	—	—	113	—	—	113
Adjustments to provisional fair values	135	—	—	—	—	135
At 30 September 2017	**4,447**	**—**	**113**	**1,157**	**7,580**	**13,297**
Accumulated amortisation						
At 1 October 2015	—	(100)	(716)	—	(2,289)	(3,105)
Disposals	—	100	716	—	2,360	3,176
Charge for the year – discontinued operations	—	—	—	—	(71)	(71)
Charge for the year – continuing operations	—	—	—	(35)	(378)	(413)
At 1 October 2016	—	—	—	(35)	(378)	(413)
Charge for the year – continuing operations	—	—	(7)	(115)	(758)	(880)
At 30 September 2017	**—**	**—**	**(7)**	**(150)**	**(1,136)**	**(1,293)**
Impairment						
At 1 October 2015	(206)	—	(48)	—	(1,501)	(1,755)
Disposals	206	—	48	—	1,501	1,755
At 1 October 2016	—	—	—	—	—	—
Impairment charge	(200)	—	—	—	—	(200)
At 30 September 2017	**(200)**	**—**	**—**	**—**	**—**	**(200)**
Carrying amount						
At 30 September 2016	4,312	—	—	1,122	7,202	12,636
At 30 September 2017	**4,247**	**—**	**106**	**1,007**	**6,444**	**11,804**
Average remaining amortisation period				**8.8 years**	**8.8 years**	**8.8 years**

The following adjustments have been made to the provisional fair values, which have resulted in an increase in the amount of goodwill:

Company	Unpaid share capital £'000	Corporation tax liabilities £'000	Contractual provision £'000	Total £'000
Ancar-B Technologies Limited	—	(4)	—	(4)
Adept4 Managed IT Limited	(52)	41	150	139
	(52)	37	150	135

8. Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	**1,476**	1,127
Prepayments and accrued income	**873**	441
	2,349	1,568

9. Trade and other payables

9.1 Current

	2017 £'000	2016 £'000
BGF Loan Notes repayable to the BGF between three and seven years	**5,000**	5,000
Deferred consideration for Accent Telecom North Limited – payable March 2017	**—**	260
Deferred consideration for Adept4 Managed IT Limited – payable January 2018	**1,000**	1,000
Contingent consideration for Adept4 Managed IT Limited – payable March 2018	**—**	1,500
Finance lease liability	**67**	81
	6,067	7,841

Less fair value adjustment relating to the BGF Loan Notes	**(1,128)**	(1,326)
Less fair value adjustment relating to deferred and contingent consideration above	**(13)**	(630)
Less non-current portion of liabilities	**(3,914)**	(5,587)
Short-term borrowings	**1,012**	298
Trade payables	**1,203**	862
Accruals and deferred income	**1,590**	1,539
Other taxes and social security costs	**490**	649
Total current liabilities	**4,295**	3,348

9.2 Non-current

	2017 £'000	2016 £'000
Finance leasing liability – long-term element	**42**	43
BGF Loan Notes	**3,872**	3,673
Deferred and contingent consideration payable on acquisitions	**—**	1,871
Total non-current liabilities	**3,914**	5,587

10. Post-balance sheet events

The deferred consideration, of £1.0m, due on the acquisition of MIT was payable to the vendors on 2 January 2018. There is currently an ongoing legal dispute with the vendors of MIT which has resulted in a delay in the payment of the deferred consideration. We continue to recognise the full amount of the deferred consideration due to the early stage of this dispute, which has no effect on current performance and does not relate to the performance of MIT since acquisition.