7 March 2022

CloudCoCo Group plc

("CloudCoCo", "the Group" or "the Company")

Final Results

A transformational year laying the foundations for long-term growth

CloudCoCo (AIM: CLCO), a leading UK provider of managed IT services and communications solutions to private and public sector organisations, announces its final results for the year ended 30 September 2021.

Financial highlights

- Revenue of £8.1 million (2020: £8.0 million)
- Trading Group EBITDA[1] increased 185% to £745k (2020: £261k)
- Pre-tax loss decreased to £2.0 million (2020: loss of £3.0 million)
- Cash at bank of £1.2 million at 30 September 2021 (2020: £0.6 million)
- Net assets of £5.2 million at 30 September 2021 (2020: £5.0 million)

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments

Operational highlights

- Successful fundraising of £2.1 million (gross) to fund acquisitions and future growth
- Acquisition of Systems Assurance Limited and More Computers Limited
- 35 new logo customers added, providing significant opportunity for further revenue growth
- Multi-year contract renewals with Vantage Motor Group, Kings College London and boohoo
- Appointment of Darron Giddens as Chief Financial Officer
- Appointment of Nigel Redwood, former CEO of AIM-listed IT service management company Nasstar PLC, as Strategic Consultant to support the Group's acquisition strategy

Post-period highlights

- Record total contract value sales performance in Q1 of FY22, representing 129% of the total contract value sales achievement in FY21
    - Includes significant new logo contract win worth c.£3 million revenue over three years with a global leader in the digital transformation services industry, with an additional £1 million revenue upside already secured.
    - Recurring Managed Services representing 72% of Q1 sales (2020: 41%)
- Acquisitions completed of IDE Group Connect Limited ("Connect") and Nimoveri Limited from IDE Group Holdings PLC
- Appointment of Mark Ward, former CEO of Hunter Macdonald, as Strategic Advisor to support the Group's growth initiatives
- Appointment of Mike Chester as Group Operations Director to ensure the Group continues to provide the very highest standard of customer support as it expands further

Outlook

- Strong start to the year and easing of travel restrictions has paved the way for a year of continued commercial progress, with a significantly enlarged customer base and enhanced capabilities from acquisitions expected to have a transformative impact on FY22 revenues
- Significant upside from the acquisitions anticipated in FY22, following the expected completion of decisive corrective actions to stem the losses and achieve monthly profitability in the Connect business in the second half
- Strengthened management team, staff and customer base means the Group now has the scale and experience to leverage and unlock new opportunities

Mark Halpin, CEO of CloudCoCo, commented:

"I'm delighted to report on another period of significant progress for CloudCoCo, with our platform now primed for sustainable, long-term growth.

Since October 2019 we have shaped our future success and laid the foundations for the 'Get Bigger' stage of our strategy. After executing on a successful fundraise in August, we acquired a number of complementary businesses. The focus now is on stabilising and optimising these businesses while realising synergistic benefits and, ultimately, unlocking the huge potential within them.

We will continue this strategy in a similar vein through the new financial year while pursuing opportunities for organic growth as our core objective. As appropriate, we will also continue to explore the possibility of further accretive acquisitions where they are a good strategic fit.

With an enlarged Group serving circa 1,000 customers, we now have the ability and impetus to provide a broader range of services to a broader range of customers. We have made an exceptional start to the new financial year – our best ever quarter by sales – and have made excellent progress in integrating the acquisitions, with the actions taken to get Connect from loss-making to anticipated profitability later in FY22 a particularly noteworthy achievement.

FY21 was a landmark year for the Group and we are now a very different proposition in terms of scale and opportunity, which will be reflected in our FY22 financials. With an exceptional team in place, improving market conditions and having demonstrated our ability to overcome challenges as and when they arise, we remain confident in our ability to continue making good progress towards our growth ambitions."

Simon Duckworth, Chairman of CloudCoCo, said:

"Mark and the CloudCoCo team have once again met and exceeded the Board's expectations, successfully transforming the existing business while delivering on our ambitious acquisition strategy.

Customer feedback remains exceptionally positive. We have a growing reputation for consistently delivering quality which, coupled with our enhanced service propositions, has allowed the Company to record its most successful sales quarter yet at the start of FY22.

I am grateful to all our colleagues – new and old – for their contributions to the progress we have made during the year under review. Their hard work and enthusiasm for the business has driven us forward and makes me excited for what we can achieve together in the new financial year and beyond."

Contacts

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About CloudCoCo

Supported by a team of industry experts and harnessing a diverse ecosystem of partnerships with blue-chip technology vendors, CloudCoCo makes it easy for private and public sector organisations to work smarter, faster and more securely by providing a single point of purchase for their connectivity, telephony, cyber security, cloud, IT hardware and support needs.

CloudCoCo has offices in Warrington, Leeds and Sheffield in the UK.

www.cloudcoco.co.uk

Chairman's statement

Overview

Since the formation of CloudCoCo Group plc in 2019, the business has been on a journey towards excellence and has consistently delivered against its objectives. We have viewed the development of the business in phases, defined internally as:

- Get Well
- Get Fit
- Get Bigger

This year saw us enjoy the benefits of the 'Get Well' phase, implemented in 2020, which allowed us to concentrate on the 'Get Fit' and 'Get Bigger' phases of our plan, resulting in a greater focus on new business development and the acquisition of four companies towards the end of FY21 and the beginning of FY22 as detailed below.

As we have progressed through each phase, we have maintained our focus on four key areas. These are: accelerate sales, maintain excellent support levels, maintain cost vigilance and improve the cash position.

In September 2021, the Company raised £2.1m to fund acquisitions to broaden its service offering, increase revenue, and provide scope for a substantial increase in profitability going forward. The additional funds will be used for the integration of the acquisitions and to strengthen the balance sheet and working capital.

This laser focus by our leadership team, led by our CEO Mark Halpin, has been delivering improvements day-by-day, project-by-project and has successfully built a strong platform for long-term, sustainable growth. We have reduced our costs, improved our customer service levels, and secured new business and multi-year renewals with existing customers, despite the considerable disruption caused by the pandemic.

Prior to year-end, as part of our plan to "Get Bigger", we acquired Systems Assurance Limited and More Computers Limited into the Group, to build on the success seen in FY21 through delivering Value Added Resale services to customers, and just after the year-end, we also acquired IDE Group Connect Limited and Nimoveri Limited, to support growth through the significantly enlarged customer base, technical capabilities and talented staff provided by these businesses.

The Group is currently working through an accelerated 'Get Well' programme for the newly acquired businesses, focusing on managing costs, driving efficiencies and realising synergy benefits, with a view to supporting sustainable, profitable growth.

We are delighted with the talented staff, customers, and new services that these most recent acquisitions have brought to the Group and are optimistic about how the combined business will perform.

People

Our colleagues old and new have demonstrated a fantastic dedication to our shared mission, particularly in the challenging circumstances posed by the pandemic. I would like to thank them all for their valuable contribution during the year.

CloudCoCo prides itself on its strong corporate culture which places an emphasis on cultivating the passion and creativity of our colleagues while always ensuring we are set apart by first-class customer service. Our colleagues who have joined the Group through acquisition and new hires have proven an excellent cultural fit and I am delighted to see them settle in well.

As a reflection of this inclusive culture and focus on improving the working lives of our people, we launched CoCo-One, our Group-wide people initiative encompassing a number of projects, during the period. This initiative includes a share options plan, currently providing qualifying employees with performance-based share options to align colleague incentivisation with shareholders' interests.

Other projects carried out during the year include investment into a new employee experience platform that increases employee engagement through regular surveys and polls, encouraging colleagues to provide instant feedback to each other from within our everyday business applications. Engaging with our colleagues allows us to make better decisions and drive meaningful change, taking all opinions into account.

Recognising the critical importance of our colleagues to our success, we always look to reward exceptional performance and do what we can to make CloudCoCo a great place to work. We look forward to welcoming our new colleagues onto the programme.

In line with our growth ambitions, the Group's senior leadership and advisory team has been strengthened significantly. As announced on 9 June 2021, we were pleased to welcome Darron Giddens as Chief Financial Officer and to the Board. Darron has been with the Group since 2009 and was promoted from his previous role as Group Finance Director. His transition has been seamless, and he has already played a vital role in integrating the acquisitions and further strengthening the finance function of the business following the recent acquisitions.

Darron replaced Mike Lacey, who had joined the Board of Directors in January 2020 and played an important role in stabilising the Group's finances and cementing the foundations for long-term growth. I would like to wholeheartedly thank Mike for his contribution to the Group and wish him well in his future endeavours.

In June 2021 we announced the appointment of Nigel Redwood, former CEO of AIM-listed Nasstar PLC, as Strategic Consultant (a non-board position). Nigel’s experience leading high-growth IT and managed service businesses has proven highly valuable in executing the Group’s acquisition, integration and people strategies, and he continues to play an important role in assessing a pipeline of further acquisition opportunities.

Post-period, in October 2021, we also announced the appointment of Mark Ward, former founder and CEO of Hunter Macdonald, as a Strategic Adviser (a non-board position) to the Group. Mark’s wealth of experience scaling businesses in the technology sector has already proven extremely useful and I have no doubt he will continue to play a pivotal role in the Group’s development.

As announced post-period on 1 February 2022, we have appointed Mike Chester as Group Operations Director (a non-board position), to ensure CloudCoCo continues to provide the very highest standard of customer support as it expands. Mike has an extensive, 25-year track record of positioning organisations for operational success and has been responsible for the operational integration of acquisitions ranging from c. £3m to £40m and has played a pivotal role in the planning and delivery of over £5m of synergy savings and significant headcount expansion.

I would like to welcome these new appointments to CloudCoCo and we look forward to working with them in 2022 as we move through the next stage of the Company’s growth strategy.

Ambitions for this financial year

Having successfully met our key areas of focus for 2021, as detailed above, we now look forward to building on our progress and scaling the business as part of our “Get Bigger” strategy.

We approach the new year with the same objectives across the larger business, looking to replicate the good work done in managing costs and improving efficiency across our new acquisitions while integrating them into the Group.

While our teams are focused on driving new business development in the new year, we will continue to appraise further acquisition opportunities, only progressing those that have exceptional potential and are a good strategic fit.

Simon Duckworth

Chairman
6 March 2022

Chief Executive's Review

Introduction

CloudCoCo provides IT and communications solutions to organisations across the UK public and private sectors, enabling business optimisation and transformation, team-working, streamlined workflows and reduced costs. We collaborate with an extensive range of partners, service providers, distributors, and vendors.

The year under review has been a transformational period for the Group. Despite the persistence of national and local restrictions as a result of the pandemic, we have delivered a resilient financial performance. The Group achieved revenues of £8.1 million (FY20: £8.0 million) and total contract value of £5.2 million (FY20: £5.2 million). Cash at 30 September 2021 was £1.2 million (FY20: £0.6 million). I am particularly pleased with the progress we have made in Trading Group EBITDA[1], an important metric for the Group's progress, which increased over 185% to £745k (FY20: £261k).

Acquisitions

Supported by the appointment of Nigel Redwood during the period, we have significantly expanded the Group's offering and customer base through acquisitions and expect these to have a major long-term impact on the Group's ability to scale and compete against the larger players in our space.

In August 2021 we announced the acquisition of Systems Assurance Limited ("Systems Assurance"), an IT group comprised of a B2B value-added reseller ("VAR") and an automated B2C cloud-based VAR and IT managed service provider for an initial net consideration of £0.83m. This acquisition provides the Group with a proven, scalable hardware engine alongside expanding its IT managed services offering. Additionally, the acquisition of Systems Assurance provided the Group with a further 125 customers, offering the potential for up-sell and cross-sell from the Group's existing services. Importantly, the More Computers B2C e-commerce platform acquired provides us with automation capabilities and access to a large number of UK distributors and vendors that will benefit the wider Group in the coming years. The strategy this year is to further improve the More Computers engine in H1-FY22 and then launch a B2B version for our now circa 1,000 public and private business customers.

Post-period, in October 2021, we announced further acquisitions in the shape of IDE Group Connect Limited ("Connect"), a specialist cloud, advanced support, connectivity and co-location data centre provider and Nimoveri Limited, an IT managed services business, from IDE Group Holdings PLC for a combined deferred consideration of £250,000.

Connect significantly boosts the Group's overall offering, providing an additional 85 talented staff members, 33 data centres, an impressive lifecycle device management capability, circa 100,000 IPv4 addresses and a 100Gb fibre-network in London and the South of England. The Connect business recorded an adjusted EBITDA[2] loss of £0.7 million on revenues of £13.0 million in the audited accounts for the year to 31 December 2020. Our immediate focus has been to rapidly improve this business with a view to reaching profitability, which we expect to achieve during the second half of FY22. Following the acquisition, we engaged in an in-depth consultation with management and the wider team, including conducting a skills matrix survey to ensure we capitalise on the immense talent and technology available. We are now working through clear steps to realise synergistic benefits while growing sales. We believe that there is significant upside to be generated from the Connect business once we have completed the "Get Well" actions.

Progress against FY21 objectives

Accelerate sales

The business achieved revenues of £8.1m in the 12 months to 30 September 2021 in line with the prior year (FY20: £8.0m).

	2021 £'000	2020 £'000
Managed IT Services	**5,648**	6,131
Value added resale	**2,459**	1,839
Total Revenue	**8,107**	7,970

A key focus for the year was securing a greater number of multi-year contracts in order to provide the business with the enhanced security of contracted and committed revenues and the opportunity to develop its partnerships with customers long-term.

Total contract value ("TCV") measures the total revenue that we expect to generate from new customer contracts signed in the year over their contractual term. TCV remains an important indicator for the Group. This was flat relative to 2020 at £5.2m, predominantly due to the pandemic's impact on our Managed IT Services division.

Our Managed IT Services division provides a range of IT infrastructure and services, enabling our customers to focus on their day-to-day business needs and priorities. The period under review was characterised by national and local lockdowns and restrictions as well as working from home measures. We experienced a slowdown and delay in customer decision making, primarily in H1, as a result of general uncertainty prompted by COVID-19 resulting in downsizing of license types and closure of locations by our end customers.

Despite this, and a few cancellations as a result of customers in trading difficulty, we have successfully navigated the effects of the pandemic to date and saw an increase in customer spend in Q4 2021 with positive signs moving through FY22. We secured 35 new logo customers in the period, and made key renewals with existing customers including Vantage Motor Group, Kings College London and boohoo.

We expect the healthy trading seen in Q4 of FY21 and into Q1 of the current financial year to continue as restrictions ease, face-to-face meetings become more frequent and organisations begin to increase their IT spend in the face of a more stable and certain external environment. We also expect our enhanced capabilities and increasing activity across our target markets to deliver greater returns.

Managed IT Services constitutes c.70% of the Group's revenues. In line with the normalisation of trading patterns post-pandemic, we expect this proportion to increase over the next few financial years.

Our Value Added Resale division provides a range of additional IT products and services. This division experienced strong demand for collaboration and cyber security solutions throughout the period as organisations across the public and private sectors adapted to home working measures. This includes existing customer boohoo, who expanded the range and depth of services they take from us during the year.

Maintaining excellent support levels

CloudCoCo is built around the ethos of providing the highest levels of support to our customers and going above and beyond expectations. There is no room for complacency, but I am delighted with the continually exceptional levels of customer support, contributing to a further reduction in customer churn.

Our excellent levels of support are further strengthened by the recent appointment of Mike Chester, as announced on 1 February 2022.

Maintain cost vigilance

Following our comprehensive spending review in FY20, we remain vigilant around the reduction of costs and optimising expenditure in the business, including our newly acquired businesses.

Improve cash position

We have performed excellently in our aim to improve the Group's cash position, supplemented by the Group's £2.1 million fundraise through a conditional placing in August 2021. During the period, cash increased to £1.18m (FY20: £0.6m), and we have significantly increased our Trading EBITDA[1] to £745k (FY20: £261k).

A portion of the proceeds from fundraising was utilised to pay down the £0.1 million working capital debt to MXC Capital.

The market

We target our services across all industries and sectors where there is a need for digital change. In line with wider market trends, we continue to observe a strong demand for our range of products across our four principal areas of expertise – cloud, collaboration, connectivity and cyber security.

While many organisations have adopted hybrid working patterns as a standard practice, as pandemic-related restrictions ease, we are now seeing organisations shift their focus towards optimising their core long-term communications and cyber security infrastructure.

Given the Group's position in the market, this represents a good opportunity and we expect to see demand for these services continue to grow across both the public and private sectors.

Partnership ecosystem

A core element of CloudCoCo's business model is the development of its partnership ecosystem with world-class vendors and innovative technology partners. This represents a key competitive advantage for the Group, and it has continued to strengthen in this area in the period.

We are pleased to be one of a limited number of UK partners to be listed on the AWS (Amazon Web Services) Marketplace for Dynamic Cloud Security solutions, while THG Hosting, THG PLC's web hosting business also announced CloudCoCo as a UK partner in H2. During the year we have also progressed through status bands with our existing partners Fortinet, Lenovo, and Dell, as well as maintaining the 'Gold' partner status with Mitel.

Current trading and outlook

We have made an excellent start to H1 2022, recording a record sales performance in the first quarter. The Group's teams have done an outstanding job to achieve this, with total contract value from submitted sales in Q1 FY22 of £6.7 million representing 129% of the prior financial year. While in part due to the normalising of activity as COVID-19 related delays abate, it is also an important reflection of the strong foundations we have put in place in prior periods, including targeted marketing strategies and our new and improved website.

New business wins in the current year are drawn from a range of sectors including manufacturing, charity, accountancy and financial services. The Group continues to focus on winning longer and larger contracts and, as announced in November 2021, we secured a significant new contract worth approximately £3m over three years with a new customer in the digital transformation services industry with an additional £1m upside secured in December 2021. While we recognise the effects of COVID-19 are likely to continue to have a suppressing effect on customer confidence in the near-term, we are seeing positive signs as conditions normalise.

We now have around 1,000 customers and demand for our products remains strong, enhanced by the significantly enlarged service offering and customer base provided by the Group's recent acquisitions. In the immediate term we remain focused on using our experience to drive efficiencies in the acquired businesses and ensure they are seamlessly integrated into the Group.

As anticipated by the Board, the loss-making nature of Connect at acquisition is expected to impact Group profitability for the first half of FY22. A positive monthly contribution is expected from Connect later in FY22 as a result of the completion of decisive corrective actions, together with the transition to the accelerated 'Get Fit' phase of this business in the second half of the year. We are already making strong progress towards getting Connect to breakeven and see significant upside potential for this business.

In line with the 'Get Bigger' phase of our strategy, we will continue to appraise potential new acquisition opportunities, only progressing those with exceptional potential that would be a sound strategic and cultural fit.

With an enhanced service offering, significantly expanded customer base, a healthy financial position and a team of passionate, talented IT specialists, the future is exciting for CloudCoCo. I would like to thank all our colleagues, shareholders, partners and customers for their continued support, and look forward to providing a further update on FY22 at the interim results later this year.

Mark Halpin

Chief Executive Officer
6 March 2022

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

[2] adjusted EBITDA is defined by IDE as profit or loss before interest, tax, depreciation, amortisation, impairment charges, exceptional items, loss on disposal of fixed assets and share-based payments.

Financial review

Placing

On 2 September 2021, the Company raised £2.1 million before expenses through a conditional placing arranged by Allenby Capital of 210,990,000 new Ordinary Shares at a price of 1 penny per share to fund growth by acquisition and provide additional working capital to fund the subsequent integration. The Placing was carried out at an approximate 13 per cent. discount to the Company's closing price of 1.15p per share on Monday 16 August 2021.

Acquisition of Systems Assurance Limited and More Computers Limited

On 6 September 2021, the Group acquired the entire share capital of Systems Assurance Limited and its wholly owned subsidiary More Computers Limited on a cash-free debt-free basis, for an initial cash consideration payment of £0.83 million before associated expenses. The initial consideration represented approximately four times the Trading EBITDA[1] of the acquired companies in the year to 31 December 2020, excluding remuneration costs of the vendors. Further details are provided in Note 11.

In return for assisting the Company integrate the acquired businesses into the Group and to provide an incentive for their continued support and advice, the vendors were issued with an aggregate of 4,000,000 share warrants between them, giving them the right to subscribe in cash for Ordinary Shares in the Group, at a subscription price of 1.5p per Ordinary Share, subject to certain pre-conditions during the ten-year exercise period, commencing 3 March 2022.

The pre-conditions to be satisfied on the exercise date are that i) the current market price of the Company is not less than 2 pence per share and ii) that the prior six-month revenues of the acquired businesses are at least £3.2 million, calculated in accordance with the share warrant agreement signed on 3 September 2021. Provided that the pre-conditions are met on the exercise date, the share warrants may be exercised in whole or part, subject to the vendors issuing a notice to the Company in agreed form during the exercise period.

Revenue and gross margin

Group revenue for the year to 30 September 2021 grew by 1% overall to £8.1 million (FY20 £8.0 million) with sales of Managed IT Services falling by 8% in the period, mainly as a result of the impact of COVID-19 and a reduction in the requirement for in-office managed IT solutions during lockdown and a customer reluctance to sign longer term IT service contracts with the uncertainty caused by the pandemic. The reduction in Managed IT Services was more than offset by a 34% increase in value added resale ("VAR") sales during the year, as UK business customers mobilised their workforce in order to work from home. This trend in customer spend shifted once more at the end of FY21 back towards Managed IT Services, as business customers took the opportunity to refresh their core IT infrastructure and invest in new cloud-based solutions. This shift in investment could be seen mainly from on-line and e-commerce related business and international service-related business customers with a requirement for 24 x 7 Managed IT support across multiple countries.

This produced a total gross profit of £3.2 million (FY20: £3.4 million) representing a gross margin of 39.7% (FY20: 42.9%). The reduction in margin related to the increase mix of VAR revenues, which has an element of third-party costs.

The analysis of revenue from each of our operating segments is shown in Note 3 and is detailed below.

Managed IT Services

Managed IT Services relate to the provision of recurring IT services which either have an ongoing billing and support element or utilise the technical expertise of our people.

Revenues from Managed IT Services were £5.6 million (FY20: £6.1 million) the reduction of £0.5 million being represented by incentives provided to customers for longer term renewals and a few cancellations at the end of their contractual term as a result of customers in trading difficulty during the pandemic. Managed IT Services generated a gross profit of £2.6 million (FY20: £3.0 million) and a gross margin of 46% (FY20: 49%). The reduction in the gross margin is due to the mix of services provided between in house and third party resources.

The proportion of our total revenue derived from Managed IT Services continued to be high at 70% (FY20: 77%).

Value added resale

VAR is the resale of one-time solutions (hardware and software) from our leading technology partners, including revenues from the More Computers e-commerce platform.

Revenues from VAR were £0.7 million higher than those in FY20 at £2.5 million (FY20: £1.8 million) due to hardware sales in advance of multi-year support contracts and assisting customers who were transitioning to home working. VAR generated a gross profit of £0.6 million (FY20: £0.4 million) and gross margin of 24% (FY20: 22%).

Operating performance, costs and Trading Group EBITDA

As well as revenue, gross profit and cash balances, one of our main financial key performance indicators is our Trading

Group EBITDA[1] – our operational trading performance before plc costs. This measure best equates to the cash profitability of the Group before plc costs, exceptional items and net finance expenses.

With sustainable recurring profits in mind, our core objectives for the financial year were to accelerate sales, maintain excellent support levels, maintain cost vigilance and improve cash position.

Excluding plc costs of £0.5 million (FY20: £0.5 million), our trading overheads[2] during the year fell by 22% over FY20 to £2.5 million (FY20: £3.2 million), of which staff costs comprised 85% (FY20: 81%). Following the COVID-19 pandemic, various measures were taken in the second half of FY20 and early FY21 to help protect the business, including temporary pay cuts and use of the Government furlough scheme.

In addition, a number of initiatives from the "Get Well" and "Get Fit" phases of our plan helped to improve trading performance. These included a review of customer profitability on a line-by-line basis - a process of re-matching and re-negotiating supplier costs at the individual service level. A further initiative saw us re-focus our technical service team as a separate cost-centre - as we challenged our Technical teams to cover their salary costs through additional chargeable time from customers as opposed to business as usual recurring support work.

The effect of focussing on the key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Chairman's Statement. Despite the continued uncertainty and disruption as a result of the pandemic, the Group reported a 285% improvement in underlying profitability as measured by Trading Group EBITDA[1] (2021: £0.7m; 2020: £0.3m). The acquisition of Systems Assurance Limited and More Computers Limited increased FY21 Trading Group EBITDA[1] in the year by £30,000, results for those companies being included since their acquisition on 3 September 2021.

Plc costs

Plc costs in the year remained in-line with FY20 at £0.5 million. These are non-trading costs, relating to the Board of Directors of the Parent Company, it's listing on the AIM Market of the London Stock Exchange and its associated professional advisors.

Exceptional Items

During the year we incurred certain costs which were not directly related to the generation of revenue and trading profits. Given their size and nature, they have been classified as exceptional items within the Consolidated Income Statement. These items totalled £0.4 million, of which £0.2 million relates to Systems Assurance Limited and More Computers Limited acquisition costs and £0.2 million relates to placing fees, integration and reorganisation costs. In the year to 30 September 2020, exceptional items were £0.5 million of which £0.3m related to the acquisition of CloudCoCo Limited and £0.2 million related to integration and reorganisation costs.

Net finance expenses, depreciation, amortisation and financial results for the full year

During the year the Group incurred net finance costs of £0.5 million (FY20: £0.5 million). £0.4 million of this was accrued interest on loan notes payable at the end of the loan notes' term. The Group incurred other non-cash costs including total amortisation and depreciation charges of £1.1 million (FY20: £1.7 million) and share-based payments charge of £217,000 (FY20: £26,000 credit). After accounting for a deferred tax charge of £0.1 million (FY20: £0.3 million credit) arising as part of business combinations but also impacted by the rise in corporation tax rates from 2023, the reported loss for the year after tax was £2.1 million compared to a loss after tax for the year to 30 September 2020 of £2.7 million.

Statement of Financial Position and cash

The Group had positive net assets at 30 September 2021 totalling £5.2 million (FY20: £5.0 million) and the cash position improved by £0.6 million to £1.2 million (FY20: £0.6 million). The placing, completed in September 2021, the underlying trading performance of CloudCoCo Limited and the subsequent acquisition of two cash generative businesses in Systems Assurance Limited and More Computers Limited, provides the business with a solid platform for growth.

Contract liabilities increased by £0.4 million to £1.3 million (FY20: £0.9 million) reflecting the success that the Group had during the year, signing customers onto new longer term recurring revenue contracts, billed in advance. A number of larger deals were signed towards the end of the financial year, reflected in the £1.1 million increase in Trade and other receivables at September 2021, compared to September 2020. This will benefit working capital in FY22 as these balances are received. In so far as possible, the Directors look to balance movements in trade receivables and trade payables throughout the year to maintain a consistent bank balance, hence the small outflow in net cash from operating activities before acquisition costs.

In order to reduce interest expense and overall net debt, the Group repaid the £100,000 working capital loan from MXC Guernsey Limited ("MXCG") in September 2021. Overall Net debt reduced by £0.3 million to £2.9 million during the year. Net debt comprises cash balances of £1.2 million less the loan notes and rolled up interest of £3.9 million together with £0.1 million of lease liabilities and a COVID-19 Bounce Back Loan of some £50,000. The Trading Group EBITDA[1] of the business exceeded the loan note interest in the year by £0.3 million (FY20: a shortfall of £0.1 million).

CloudCoCo remains asset light, reflected in the £0.1 million carrying value of tangible assets at year-end (FY20: £0.2 million) and the costs of additional capex in the year of only £31k (FY20: £37k).

The Group had a net cash inflow during the year of £0.6 million (FY20: £0.3 million), the main components being:

- Small outflow in cash generated from operating activities excluding the costs of acquisition of £0.3 million;
- costs of £0.6 million (net of cash acquired) to acquire Systems Assurance Limited and More Computers Limited;
- proceeds of £2.1 million before associated costs of £0.2m from Placing in September 2021;
- repayment of MXCG working capital facility of £0.1 million; and
- repayment of lease liabilities in the year of £0.1 million.

Further details on the financial position of the Group are contained in note 1.

Darron Giddens

Chief Financial Officer
6 March 2022

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.
[2] trading overheads are the group's administrative costs excluding depreciation and amortisation, plc costs, exceptional items and share-based payments

Consolidated income statement

for the year ended 30 September 2021

	Note	2021 £'000	2020 £'000
Continuing operations			
Revenue	3	**8,107**	7,970
Cost of sales		**(4,891)**	(4,554)
Gross profit		**3,216**	3,416
Other income		**67**	97
Administrative expenses		**(4,794)**	(5,963)
Trading Group EBITDA [1] – non statutory measure		**745**	261
Amortisation of intangible assets		**(1,009)**	(1,623)
Plc costs[2]		**(492)**	(461)
Depreciation		**(97)**	(113)
Exceptional items – other	4	**(441)**	(540)
Share-based payments		**(217)**	26
Operating loss	5	**(1,511)**	(2,450)
Interest receivable	6	**1**	1
Interest payable	6	**(535)**	(518)
Loss before taxation		**(2,045)**	(2,967)
Taxation	7	**(83)**	288
Loss and total comprehensive loss for the year attributable to owners of the parent		**(2,128)**	(2,679)
Loss per share			
Basic and fully diluted	8	**(0.42)p**	(0.56)p

[1] profit or loss before net finance costs, tax, depreciation, amortisation, plc costs, exceptional items and share-based payments.

[2] Plc costs are non-trading costs relating to the Board of Directors of the Parent Company, its listing on the AIM Market of the London Stock Exchange and its associated professional advisors.

Consolidated statement of financial position

as at 30 September 2021

	30 September 2021 £'000	30 September 2020 £'000
Non-current assets		
Intangible assets	**10,393**	10,359
Property, plant and equipment	**149**	221
Total non-current assets	**10,542**	10,580
Current assets		
Inventories	**86**	31
Trade and other receivables	**2,953**	1,856
Cash and cash equivalents	**1,183**	588
Total current assets	**4,222**	2,475
Total assets	**14,764**	13,055
Current liabilities		
Trade and other payables	**(2,872)**	(2,465)
Contract liabilities	**(177)**	(565)
Borrowings	**(172)**	(104)
Lease liability	**(86)**	(122)
Total current liabilities	**(3,307)**	(3,256)
Non-current liabilities		
Contract liabilities	**(1,092)**	(364)
Borrowings	**(3,991)**	(3,458)
Lease liability	**(11)**	(61)
Deferred tax liability	**(1,188)**	(940)
Total non-current liabilities	**(6,282)**	(4,823)
Total liabilities	**(9,589)**	(8,079)
Net assets	**5,175**	4,976
Equity		
Share capital	**7,062**	4,952
Share premium account	**17,630**	17,630
Capital redemption reserve	**6,489**	6,489
Merger reserve	**1,997**	1,997
Other reserve	**339**	122
Retained earnings	**(28,342)**	(26,214)
Total equity	**5,175**	4,976

Consolidated statement of changes in equity

for the year ended 30 September 2021

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2019	**2,271**	**11,337**	**6,489**	**1,997**	**1,720**	**(24,925)**	**(1,111)**
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,679)	(2,679)
Transactions with owners in their capacity of owners							
Extinguishment of BGF Loan Notes in consideration for issue of 50,000,000 shares at 0.35p per share (note 9)	500	1,275	—	—	(1,330)	1,148	1,593
Issue of 218,160,586 shares to CloudCoCo vendors at 3.3p per share (note 9)	2,181	5,018	—	—	—	—	7,199
Cancellation of 11,353,255 share warrants held by MXC Guernsey on acquisition of CloudCoCo Ltd	—	—	—	—	(242)	242	—
Share-based payments	—	—	—	—	(26)	—	(26)
Total transactions with owners	2,681	6,293	—	—	(1,598)	1,390	8,766
Total movements	2,681	6,293	—	—	(1,598)	(1,289)	6,087
Equity at 30 September 2020	**4,952**	**17,630**	**6,489**	**1,997**	**122**	**(26,214)**	**4,976**

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2020	**4,952**	**17,630**	**6,489**	**1,997**	**122**	**(26,214)**	**4,976**
Loss and total comprehensive loss for the period	—	—	—	—	—	(2,128)	(2,128)
Transactions with owners in their capacity of owners							
Issue of 210,990,000 shares at 1p per share via a Placing (note 10)	2,110	—	—	—	—	—	2,110
Share-based payments	—	—	—	—	217	—	217
Total transactions with owners	2,110	—	—	—	217	—	2,327
Total movements	2,110	—	—	—	217	(2,128)	199
Equity at 30 September 2021	**7,062**	**17,630**	**6,489**	**1,997**	**339**	**(28,342)**	**5,175**

Consolidated statement of cash flows

for the year ended 30 September 2021

	2021 £'000	2020 £'000
Cash flows from operating activities		
Loss before taxation	**(2,045)**	(2,967)
Adjustments for:		
Depreciation – owned assets	**22**	36
Depreciation – right of use assets	**75**	77
Amortisation	**1,009**	1,623
Share-based payments	**217**	(26)
Net finance expense	**534**	517
Costs relating to acquisitions[1]	**202**	435
Costs relating to Placing of 210,990,000 shares (note 10)	**171**	—
Increase in trade and other receivables	**(408)**	(65)
(Increase) / decrease in inventories	**(24)**	1
(Decrease) / increase in trade payables, accruals and contract liabilities	**(57)**	866
Cash flows from taxation	**—**	—
Net cash (outflow) / inflow from operating activities before acquisition costs	**(304)**	497
Costs relating to acquisitions[1]	**(202)**	(435)
Net cash (outflow) / inflow from operating activities	**(506)**	62
Cash flows from investing activities		
Purchase of property, plant and equipment	**(31)**	(37)
Acquisitions net of cash acquired[1]	**(563)**	157
Interest received	**1**	1
Net cash (outflow) / inflow from investing activities	**(593)**	121
Cash flows from financing activities		
Proceeds from Placing of 210,990,000 shares (note 10)	**2,110**	—
Less transaction fees relating to the Placing	**(171)**	—
Proceeds from exercise of BGF share options	**—**	175
(Repayment) / receipt of loan funds from MXCG	**(100)**	100
Receipt of loan funds from COVID-19 Bounce Back Loan	**—**	50
Payment of lease liabilities	**(120)**	(183)
Interest paid	**(25)**	(48)
Net cash inflow from financing activities	**1,694**	94
Net increase in cash	**595**	277
Cash at bank and in hand at beginning of period	**588**	311
Cash at bank and in hand at end of period	**1,183**	588
Comprising:		
Cash at bank and in hand	**1,183**	588

[1] FY21 relates to the acquisition of Systems Assurance Limited and More Computers Limited.
FY20 relates to the acquisition of CloudCoCo Limited

Notes to the financial information

1. General information

CloudCoCo Group plc is a public limited company incorporated in England and Wales under the Companies Act 2006. The principal activity of the Group is the provision of IT Services to small and medium-sized enterprises in the UK. The Board of Directors approved this preliminary announcement on 6 March 2022.

Whilst the financial information included in the preliminary announcement has been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, 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 2021 and 2020. The financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which each of the Group's subsidiaries operates.

The financial information for the period ended 30 September 2020 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 2021 will be delivered to the Registrar of Companies as soon as practicable following approval. 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.

1.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The measurement bases and principal accounting policies of the Group are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

Going concern

The Group had positive net assets at 30 September 2021 totalling £5.2 million compared to £5.0 million at the end of FY20. The net proceeds from the Placing referred to in the Financial Review and the subsequent acquisition of Systems Assurance Limited and More Computers increased the net asset position, due to the issue of share capital of £2.1 million.

The Group's progress towards its key objectives of increasing sales, reducing customer churn, reducing costs, and returning to net cash generation is described in the Chairman's and Chief Executive's review. Despite continued uncertainty and disruption as a result of the pandemic, the Group reported a three-fold improvement in underlying profitability as measured by Trading Group EBITDA (2021: £0.75 million; 2020: £0.27 million). Cash outflow from operating activities before acquisition costs was £0.3 million (FY20: £0.5 million inflow).

The key operational risk the Group faces is the general economic outlook including the continued uncertainty caused by the pandemic. Although COVID-19 has not had a material impact on the Group's ability to operate, it has resulted in delays in sales cycles for certain services and delays in project delivery as customers assess the impact of COVID-19 on their own businesses. The Group responded during the year by taking action to conserve cash including temporary pay cuts, use of the Government's furlough and VAT deferral schemes and a COVID-19 Bounce Back Loan.

The Directors have reviewed the forecast sales growth, budgets and cash projections for the period to March 2023, including sensitivity analysis on the key assumptions such as the potential impact of reduced sales or slower cash receipts, for the next twelve months and beyond and the Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the period of at least one year from the date of approval of these financial statements. The Directors have not identified any material uncertainties that may cast doubt over the ability of the Group and Company to continue as a going concern and the Directors continue to adopt the going concern basis in preparing these financial statements.

1.2 New standards and interpretations of existing standards that have been adopted by the Group for the first time

New standards or amendments to existing standards and interpretations that became effective for the annual period commencing on 1 October 2020 include Definition of Material - Amendment to IAS 1 and IAS 8 and Amendment to IFRS3 Conceptual framework of financial reporting Interest Rate Benchmark Reforms as well as Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

None of the new standards or interpretations of existing standards above had a material impact on the Group during the year ended 30 September 2021.

2. Principal accounting policies

a) Basis of consolidation

The financial information provided incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 30 September each year. Control is achieved where the Company is exposed to, or has the rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group obtains and exercises control through voting rights.

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with using the acquisition method. The acquisition method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Consolidated Statement of Financial Position at their fair values, which are also used as the cost bases for subsequent measurement in accordance with the Group accounting policies.

Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition costs over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

b) Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Refer to principal accounting policy (k) for a description of impairment testing procedures.

c) Revenue and revenue recognition

Revenue arises from the sale of goods and the rendering of services as it is performed and the performance obligations fulfilled. It is measured by reference to the fair value of consideration received or receivable, excluding valued added tax, rebates, trade discounts and other sales-related taxes.

The Group enters into sales transactions involving a range of the Group's products and services; for example, for the delivery of hardware, software, support services, managed services and professional services. At the inception of each contract the Group assesses the goods or services that have been promised to the customer. Goods or services can be classified as either i) distinct or ii) substantially the same, having the same pattern of transfer to the customer as part of a series. Using this analysis, the Company identifies the separately identifiable performance obligations over the term of the contract. A contract liability is recognised when billing occurs ahead of revenue recognition. A contract asset is recognised when the revenue recognition criteria were met but in accordance with the underlying contract the sales invoice had not been issued.

Goods and services are classified as distinct if the customer can benefit from the good or services on their own or in conjunction with other readily available resources. A series of goods or services, such as Recurring Services, would be an example of a performance obligation that is transferred to the customer consecutively over time. The Group applies the revenue recognition criteria set out below to each separately identifiable performance obligation of the sale transaction. The consideration received from multiple-component transactions is allocated to each separately identifiable performance obligation in proportion to its relative fair value.

Sale of goods (hardware and software)

Sale of goods is recognised at the point in time when the customer obtains control of the goods. Revenue from the sale of software with no significant service obligation is recognised on delivery at a point in time.

Rendering of services

The Group generates revenues from managed services, support services, maintenance, resale of telecommunications and professional services ("Managed IT Services"). Consideration received for these services is initially deferred (when invoiced in advance), included in accruals and contract liabilities and recognised as revenue in the period when the service is performed and the performance obligation fulfilled, measured by reference to hourly rates.

In recognising recurring Managed IT Services revenues, the Group recognises revenue equally over the duration of the contractual term. Sales commission and third-party costs (where relevant) relating to these services are shown within Contract Assets and are spread equally over the duration of the contractual term, in line with when the customer benefits from the services. Internal technical resources utilised in setting up recurring Managed IT Services over twelve months in duration are capitalised at the start of the contract within Contract Assets and spread equally over the duration of the contractual term.

d) Financial assets

All financial assets are initially recognised at fair value, plus transaction costs and subsequently measured at amortised cost.

Trade receivables are held in order to collect the contractual cash flows and are initially measured at the transaction price as defined in IFRS 15, as the contracts of the Group do not contain significant financing components. Impairment losses are recognised based on lifetime expected credit losses in profit or loss.

The Group reviews the amount of credit loss associated with its trade receivables based on forward looking estimates, taking into account current and forecast credit conditions.

Other receivables are held in order to collect the contractual cash flows and accordingly are measured at initial recognition at fair value, which ordinarily equates to cost and are subsequently measured at cost less impairment due to their short-term nature. A provision for impairment is established based on 12-month expected credit losses unless there has been a significant increase in credit risk when lifetime expected credit losses are recognised. The amount of any provision is recognised in profit or loss.

All financial assets are recognised when the Group becomes a party to the contractual provisions of the instrument. Derecognition of financial assets occurs when the rights to receive cash flows from the instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken, at least, at each reporting date.

Interest and other cash flows resulting from holding financial assets are recognised in the Consolidated Income Statement when receivable.

3. Segment reporting

The Chief Operating Decision Maker ("CODM") has been identified as the executive directors of the Company and its subsidiaries, who review the Group's internal reporting in order to assess performance and to allocate resources.

The CODM assess profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts. The Board believes that the Group comprises a single reporting segment, being the provision of IT managed services to customers. Whilst the CODM reviews the revenue streams and related gross profits of two categories separately (Managed IT Services and Value added resale), the operating costs and operating asset base used to derive these revenue streams are the same for both categories and are presented as such in the Group's internal reporting.

The segmental analysis below is shown at a revenue level in line with the CODM's internal assessment based on the following reportable operating categories:

Managed IT Services	–	This category comprises the provision of recurring IT services which either have an ongoing billing and support element or utilise the technical expertise of our people.
Value added resale	–	This category comprises the resale of one-time solutions (hardware and software) from our leading technology partners, including revenues from the More Computers e-commerce platform.

All revenues are derived from customers within the UK and no customer accounts for more than 10% of external revenues in both financial years. Inter-category transactions are accounted for using an arm's length commercial basis.

3.1 Analysis of continuing results

All revenues from continuing operations are derived from customers within the UK. In order to simplify our reporting of revenue, we have taken the decision to condense our reporting segments into two new categories – Managed IT Services and Value Added Resale. This analysis is consistent with that used internally by the CODM and, in the opinion of the Board, reflects the nature of the revenue. Trading EBITDA is reported as a single segment.

3.1.1 Revenue

	2021 £'000	2020 £'000
Managed IT Services	**5,648**	6,131
Value added resale	**2,459**	1,839
Total Revenue	**8,107**	7,970

3.1.2 Revenue

	2021 £'000	2020 £'000
Recognised at a point in time	**3,041**	2,558
Recognised over time	**5,066**	5,412
Total Revenue	**8,107**	7,970

4. Exceptional Items

Items which are material and non-routine in nature are presented as exceptional items in the Consolidated Income Statement.

	2021 £'000	2020 £'000
Costs relating to the acquisition of CloudCoCo Limited	—	(435)
Costs relating to the acquisition of Systems Assurance Limited and More Computers Limited	**(202)**	—
Costs relating to the Placing	**(171)**	—
Integration and restructure costs	**(68)**	(105)
Exceptional items	**(441)**	(540)

5. Operating loss

	2021 £'000	2021 £'000
Operating loss is stated after charging:		
Depreciation of owned assets	**22**	36
Depreciation of right of use assets	**75**	77
Short life lease expense	**34**	50

Amortisation of intangibles	**1,009**	1,623
Auditor's remuneration:		
– Audit of parent company	**20**	20
– Audit of subsidiary companies	**53**	50
– Other audit-related assurance services	**7**	7

Government grants of £67,000 (2020: £97,000) received as part of the Coronavirus Job Retention Scheme ("furlough") are recorded as Other Income in the income statement.

6. 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:

	2021 £'000	2020 £'000
Interest income resulting from short-term bank deposits	**1**	1
Finance income	**1**	1
Interest expense resulting from:		
Lease liabilities	**12**	27
MXC rolling working capital facility	**12**	9
Loan note interest	**420**	398
Interest on Government related COVID19 VAT deferral scheme	**6**	3
Effective interest on liability element of the loan notes measured at amortised cost	**85**	81
Finance costs	**535**	518

Loan note interest includes £420,000 (2020: £398,000) which is accrued and is only payable when the loan notes are repaid in 2024 or earlier if the Group chooses.

7. Income tax

	2021 £'000	2020 £'000
Current tax		
UK corporation tax for the period at 19% (2020: 19%)	**—**	—
Deferred tax		
Deferred tax charge / (credit) on intangible assets	**83**	(288)
Total tax charge / (credit) for the year	**83**	(288)

The relationship between expected tax (credit) / expense based on the standard rate of tax in the UK of 19% (2020: 19%) and the tax expense actually recognised in the Consolidated Income Statement can be reconciled as follows:

	2021 £'000	2020 £'000
Loss for the year before tax:	**(2,045)**	(2,967)
Tax rate	**19%**	19%
Expected tax credit	**(389)**	(564)
Adjusted for:		
Non-deductible expenses	**59**	91
Change in tax rates	**334**	—
Difference in tax rates	**(60)**	—
Movement in unprovided deferred tax relating to losses	**135**	191
Short-term timing differences	**4**	(6)
Total tax charge / (credit) for the year	**83**	(288)

The Group has unrecognised deferred tax assets in respect of tax losses carried forward totalling £2,196,000 (2020: £1,522,000). Deferred tax assets remain unrecognised until it becomes probable that the underlying deductible temporary differences will be able to be utilised against future taxable income. During the year, the substantively enacted tax rate increased from 19% to 25%, the impact shown in the table above.

8. Loss per share

	2021 £'000	2020 £'000
Loss attributable to ordinary shareholders	**(2,128)**	(2,679)

		Number
Weighted average number of Ordinary Shares in issue, basic and diluted	**510,759,930**	478,427,400
Basic and diluted loss per share	**(0.42)p**	(0.56)p

The weighted average number of ordinary shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share incentives would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive under the terms of IAS 33.

9. Financial instrument

On 26 May 2016, the Company issued £5m unsecured loan notes ("Loan Notes") to the Business Growth Fund ("BGF") with a seven-year term (although redemption was permissible from the third anniversary) with repayment between the fifth and seventh anniversaries in equal semi-annual repayments that carry interest at 8% per annum ("Coupon"). On the same date, the Company also agreed to grant the BGF an option to subscribe for 50,000,000 Ordinary Shares of 1p at a subscription price of 6p any time before 26 May 2031. As the Loan Notes were unsecured, no collateral was offered to the BGF as security. The Loan Notes were not exposed to market interest rate increases over the term.

In the opinion of the directors, the Loan Notes and share option elements were linked and were therefore treated as a single financial instrument. In accordance with IAS 32, the Loan Notes were recorded at a fair value of £3.6m which was measured using a discounted cash flow model over the seven-year term of the instrument and an effective interest rate of 15%. The difference to the consideration received represented the element attributable to the options, which was credited to equity. The Loan Notes were subsequently measured at amortised cost whereby the difference between the face value of the Loan Notes and their fair value on initial recognition is recognised as an effective interest charge over the term of the instrument.

On 21 October 2019, the Company and BGF agreed to modify the exercise price of the share options and the options were immediately exercised. The directors consider this to be in consideration for the extinguishment of Loan Notes with a principal amount of £1.5m and accrued interest of £0.1m. In accordance with IAS 32, the carrying value of the Loan Notes that were extinguished, £1.3m, has been derecognised and recorded in equity; no gain or loss has been recognised in the Consolidated Income Statement.

On the same date, the remaining loan notes with a principal amount of £3.5m were acquired by a MXC Guernsey Limited, a subsidiary of MXC Capital (UK) Limited. The terms of the loan notes were revised by increasing the coupon to 12% per annum compound, rolled up and payable at maturity, and extending the term to October 2024. When measured using the loan notes' original effective interest rate, the present value of the cash flows of the revised instrument were not significantly different to that of the instrument prior to the modification. As a result, the Loan Notes were not treated as a new instrument and continue to be measured at amortised cost.

10. Placing

On 2 September 2021, the Company raised £2.1 million before expenses through a conditional Placing arranged by Allenby Capital of 210,990,000 new Ordinary Shares at a price of 1 penny per share to fund growth by acquisition and provide additional working capital to fund the subsequent integration. The Placing was carried out at an approximate 13 per cent. discount to the Company's closing price of 1.15p per share on Monday 16 August 2021. Costs relating to the Placing were £171,000 and were expensed in the income statement during the year.

11. Acquisition of Systems Assurance Limited

On 6 September 2021, the Group acquired the entire issued share capital of Systems Assurance Limited and its wholly owned subsidiary More Computers Limited, for £1.72 million, including the return of £731,000 of excess cash-assets to the vendors to acquire the business on a cash-free debt-free basis. The remaining £991,000 was settled as £836,000 on completion with the remaining £155,000 being paid in November 2021, following agreement of the Completion Statement.

The acquisition of Systems Assurance Limited and More Computers Limited increased FY21 Trading EBITDA[1] performance in the year by £30,000, having only been acquired on 3 September 2021. It is not practical to measure the impact on the full FY21 trading results, given a number of material differences in the cost and remuneration structure of the businesses pre-acquisition. The Group has assessed the combined fair value of the acquisition of Systems Assurance Limited and More Computers Limited as follows:

	Book Cost £'000	Fair Value Adjustment £'000	**Fair Value £'000**
Non-current assets			
Intangible assets – brand	—	470	**470**
Intangible assets – IT systems	—	179	**179**
Intangible assets – customer lists	—	141	**141**
Property, plant and equipment	1	34	**35**
Total non-current assets	1	824	**825**
Current assets			
Inventories	31	—	**31**
Trade and other receivables	967	—	**967**
Cash at bank	1,004	—	**1,004**
Total current assets	2,002	—	**2,002**
Total assets	2,003	824	**2,827**

Current liabilities			
Lease liability	—	(28)	**(28)**
Trade and other payables	(1,049)	—	**(1,049)**
Other taxes and social security costs	(52)	—	**(52)**
Deferred Income and accruals	(8)	—	**(8)**
	(1,109)	(28)	**(1,137)**
Non-current liabilities			
Borrowings	(50)	—	**(50)**
Lease liability	—	(6)	**(6)**
Deferred tax liability	—	(165)	**(165)**
Total liabilities	(1,159)	(199)	**(1,358)**
Net Assets	844	625	**1,469**
Consideration in cash - cash-free debt-free payment paid to vendors			**731**
Consideration in cash - initial consideration			**836**
Consideration in cash - deferred consideration			**155**
Fair value of cost of acquisition			**1,722**
Goodwill			**253**

Cash used to acquire the business net of cash acquired:	**£'000**
Cash at bank	**1,004**
Less cash-free debt-free payment paid to vendors	**(731)**
Net cash acquired	**273**
Acquisition date fair value of initial consideration transferred	**(836)**
Net cash used	**(563)**

Costs associated with the acquisition were £202,000 and were expensed during the year and are included in the statement of profit or loss and in operating cash flows in the statement of cash flows. The fair value of trade receivables is £968,000, with gross contractual amounts for trade receivables due of £983,000 of which £15,000 is not expected to be collected.

12. Post Balance Sheet events

On 19 October 2021, the Company acquired IDE Group Connect Limited ("Connect") and Nimoveri Limited ("Nimoveri") (together, the "Acquisitions") from IDE Group Holdings PLC ("IDE") for a deferred consideration of £250,000.

The Acquisitions provided the Group with circa 660 additional clients and a significant opportunity to upsell and cross sell services across the Group. The Acquisitions were acquired from IDE on a normalised net cash basis for a consideration of £250,000, funded via a loan note from IDE for £250,000 to be repaid over five years with an annual interest rate of Bank of England base rate +3% with no payments due in the first six months. The book value of net assets acquired under the transaction equate to £250,000, including a cash balance of £400,000.

IDE agreed to provide the Group with a working capital facility of up to £500,000 on request, should it be required to help fund the initial restructure of the Connect business. Amounts drawn would be convertible into new ordinary shares in the Group at 1 pence per share, if not repaid in full by 19 October 2022. As at 6 March 2022, none of the working capital facility has been drawn down.

The consideration terms reflected the financial state of the Connect business at the date of the acquisition, the limited-scope warranties offered by IDE and the small number of unprofitable contracts contained within the business. The Group's management team have implemented a number of steps to help improve the profitability of the Connect business.

The acquisition of IDE Group Connect and Nimoveri was a related party transaction pursuant to rule 13 of the AIM Rules for Companies, due to MXC Guernsey Limited owning 10.6%. of the Company's issued share capital and 34.8% of IDE's issued share capital.

The Directors of the Company (save for Jill Collighan who was not deemed independent for this purpose) having consulted with the Company's Nominated Adviser, agreed that the terms of the transaction were fair and reasonable insofar as the Company's shareholders were concerned.