

# Uniting technology, inspiring people



AdEPT Technology Group plc Annual report and accounts 2022



# Bringing together IT, telecoms and connectivity with key partnerships and expert know-how

## Our mission:

Uniting technology, inspiring people.

## Our purpose:

Navigating the storm of innovation, to help customers make the best use of technology, communicate, operate and transform.

## Our method:

By always learning, adapting and listening. Working with great partners to deliver flawless solutions.

## Our aims:

1. The benchmark for our industry.
2. A company which partners aspire to work with.
3. A team of inspired people.
4. Working within one unified platform.



Discover more at

[adept.co.uk](https://www.adept.co.uk)



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# Highlights

## Financial highlights

- > Revenue increased 18% to £68.1m (FY21: £57.9m)
- > Underlying EBITDA increased 21% to £11.9m (FY21: £9.8m)<sup>1</sup>
- > Adjusted fully diluted earnings per share increased 23% to 27.5p (FY21: 22.3p)<sup>2</sup>
- > Reinstatement of dividend at 1.0p per share (FY21: nil)
- > Cloud Centric Strategic Services increased 7% on a pro-forma organic revenue basis
- > Gross profit increased 17% to £32.4m (FY21: £27.6m)
- > Underlying EBITDA margin 17% (FY21: 17%)
- > Strong cash generation from operating activities after tax £8.1m (FY21: £7.4m)
- > Conversion of reported EBITDA to operating cash flow before tax of 108% (FY21: 89%)
- > Year-end net senior debt £29.4m (FY21: £25.6m)<sup>3</sup> after payment of initial consideration for Datrix acquisition
- > Capex light – maintained at 2% of revenue (FY21: 2%)

## Operational highlights

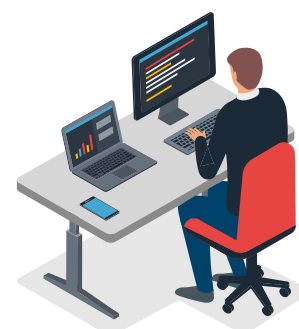
- > Acquisition of Datrix in April 2021, expanded the Group's portfolio of capabilities
- > Strategic focus now solely on the delivery of strong organic growth and the reduction of senior debt
- > Significant progress on Project Fusion, the creation of ONE AdEPT – a single set of financial and operational systems providing the Group with a scalable platform for growth
- > Revenue from Public Sector and Healthcare 56.5% (FY21: 55.5%)
- > Cloud Centric Strategic Services revenues up 18% year on year to £29.5m (FY21: £25.1m)
- > Traditional Telephony as a percentage of total revenues reduced to 13% (FY21: 19%)
- > Managed services accounted for 87% of both total revenue and EBITDA (FY21: 81%)
- > Strong client acquisition – over 100 new customer wins, including Multi-Academy Trust, the Co-Op and the TUC

## Outlook

- > Momentum gained in Q4 FY22 has continued into Q1 FY23 with strong recurring order intake
- > Demand anticipated to rise as clients continue to assess their long-term ICT requirements
- > Well invested Group with clear strategic objectives and strong infrastructure for growth
- > Board optimistic for the future of the technology market, and in turn for the prospects of AdEPT

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

Revenue	Underlying EBITDA	Adjusted earnings per share	Net senior debt
<b>£68.1m</b>	<b>£11.9m</b>	<b>27.5p</b>	<b>£29.4m</b>
2022 <b>68.1</b>	2022 <b>11.9</b>	2022 <b>27.5</b>	2022 <b>29.4</b>
2021 <b>57.9</b>	2021 <b>9.8</b>	2021 <b>22.3</b>	2021 <b>25.6</b>
2020 <b>61.7</b>	2020 <b>11.7</b>	2020 <b>28.1</b>	2020 <b>27.9</b>



Our investment case

# Our seven key strengths

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

At a glance

# The power of two

As part of its consolidation, AdEPT has recently moved from five divisions to two, which reflect its geographic and sector focus:

## AdEPT North & Education



### Education IT technology provider

To attract the best and brightest, schools and colleges are looking to technology to provide a differentiator. At the same time, staff and students need access to applications, resources and flexible connectivity wherever they are working and from whichever device they choose.

AdEPT is a strategic partner of the London Grid for Learning and provides services to over 3,500 schools – including the delivery of the largest Microsoft 365 deployment in Europe, with over 1 million users. The AdEPT education IT team has over 30 years' experience of providing 'designed for schools' technology that is easy to deploy, easy to use and budget friendly.

AdEPT is a DfE approved Microsoft and Google partner and works with schools and colleges to establish both platforms. Google and Microsoft both provide industry leading software for schools, including messaging, collaboration, setting homework, email and shared calendars, Cloud storage, and all with the relevant safeguarding taken into consideration.



### Cloud solutions

The cloud will mean different things to different organisations. For many it will mean migrating workflows, data and applications to public cloud service providers such as Google, Microsoft (Azure) and Amazon (AWS). For others, where greater control is required, it may mean leveraging private cloud infrastructure. For almost all, it will be a hybrid environment that features elements of public cloud, private cloud and on-premises solutions.

For organisations that require an enhanced level of security and control over their cloud environment, AdEPT's private cloud – Nebula – provides the ideal solution. Private cloud infrastructure is often the preferred option for organisations dealing with sensitive data, such as healthcare, finance and professional services. Private cloud offers the ideal combination of cost efficiency, control and security. A robust disaster recovery option, private cloud and data centre services come with multiple redundancy, geographic diversity and guaranteed uptime.



## AdEPT South & Healthcare



### Technology provision for healthcare

AdEPT provides data, voice and cyber security services to healthcare organisations across the UK, from central government departments and NHS Trusts, to GP surgeries.

AdEPT is providing high speed connectivity to over 600 hospitals, hospices and GP surgeries as part of the HSCN project, and is providing services to 70% of London's private hospitals.

When providing solutions for healthcare organisations, there can be no margin for error. Be it a GP's office or a hospital trust, people are dependent on resilient services that are up to the task for their wellbeing. AdEPT has a proven track record in the health sector. We provide a range of communication, connectivity and safeguarding services to both private and public sector organisations in healthcare of any size. It's the reason why over 20 NHS Trusts nationwide, Great Ormond Street, HCA and over 200 doctor's surgeries use our services, handling over 1 million patients.



### Cyber security

The cyber security landscape is one that has been dominated by increasingly persistent and sophisticated malware and ransomware attacks. Whilst malware remains a primary source of cyber-attack, social engineering, malicious insider activity and old-fashioned user or systems errors still make a significant contribution to the landscape.

With the explosion of BYOD, mobility and the recent work from home revolution, maintaining high levels of network security is easier said than done. In an increasingly borderless infrastructure, dominated by IoT devices and edge computing, IT security professionals are facing a herculean task when it comes to ensuring the protection of critical business data, applications and infrastructure. So, the way you detect and respond to an effective attack is just as important as your prevention technologies. Rapid detection, isolation, sanitisation and remediation can limit the impact of an attack and help enhance future resilience.

## Chairman's statement

# Cloud Centric services growth focus



Ian Fishwick  
Chairman

“

A strong performance with a successful and fully integrated acquisition, growing revenues and margin, combined with organic growth in Cloud Centric services. The reorganisation of the Group into two divisions has delivered increased operating efficiency. The strong finish to the year and updated strategy focused on organic growth and debt reduction bode well for the future performance of the Group.”

#### Revenue

£68.1m

#### Gross profit

£32.4m

#### Underlying EBITDA

£11.9m

It is with great pleasure that I announce the Group's annual results for the year ended 31 March 2022. I am very encouraged by the resilient performance of AdEPT during FY22 (the 'year'), with a successful acquisition, growing revenues and margins, organic advances in our Cloud Centric activities and an increase in adjusted earnings per share.

Our strategy of consolidation has created a powerful business, with the recent Datrix acquisition significantly extending our capability into leading edge software-defined networks and related security products. The Group is now well positioned to capture increasing 'wallet share' in the ever-expanding Information, Communication and Technology (ICT) space. We have also completed Project Fusion – an initiative to bring all of the Group's businesses onto a single operating platform: ONE AdEPT, delivering enhanced operational agility, business insight and organisational effectiveness.

The ability to deliver an extensive portfolio, coupled with the completion of Project Fusion, underpins the Group's decision to focus on organic growth and debt reduction.

#### Results

We achieved a pleasing 21% uplift in our underlying EBITDA, to £11.9m (FY21: £9.8m), despite being constrained by project delays due to the ongoing worldwide microchip shortage. It is worth noting that our sales and delivery teams secured over £30m of total contract value orders in FY22, with an uptick in the last quarter laying strong foundations for FY23 and driving pro-forma organic growth of 2% in underlying EBITDA in the year under review.

The 18% rise in revenues to £68.1m (FY21: £57.9m), mirrored by the 17% rise in gross profit (from £27.6m in FY21 to £32.4m in FY22) includes the full year contribution of the acquired Datrix business.

Our 'Cloud first' sales strategy continues to drive growth, with Cloud Centric Strategic Services revenues up 18% year on year to £29.5m (FY21: £25.1m) representing 43% of revenues and growing organically (discounting for the Datrix acquisition) at 7%. The move to the cloud, the requirement for hosted applications and cloud hosted telephony solutions and the rise in demand for a broad range of Microsoft propositions continue unabated. AdEPT's own cloud platform, AdEPT Nebula™, forms a successful part of this and now supports more than 650 customers.

Support services revenues increased by £5.3m to £17.1m (FY21: £11.8m), the majority of which resulted from the acquisition of Datrix.

Our concerted drive to assist customers with the transition to cloud telephony and managed services continues. We have been successful in migrating many customers away from the traditional on-desk telephone to alternative solutions, in particular Voice over IP (VoIP), Session Initiation Protocol (SIP)<sup>1</sup> and Teams collaboration from Microsoft. Overall cloud telephony revenues increased by 49% year on year to £4.0m (FY21: £2.7m) and there was a 35% rise in AdEPT Nebula™ cloud telephony seats to 2,812 in the period.

As a result of this focus Managed Services now account for 87% of both total revenue and EBITDA (FY21: 81%).

## Our results: at a glance

### Financial highlights

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### Operational highlights

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### Reinstatement of dividend

Cash generation remained strong with 108% pre-tax cash conversion of EBITDA. AdEPT paid down £5.5m of its loan facility after payment of the initial consideration for Datrix, a clear indication of sound cash and cost management. Our capex-light strategy continues, with capex expenditure at 2% of revenue in the year.

As a result of the Group's continued strong cash generation, the Board is proposing a final dividend of 1.0p per share (FY21: £Nil), payable on 6 October 2022 to shareholders on the register on 16 September 2022 (ex-dividend date being 15 September 2022). The Group is confident that a progressive policy can be maintained.

### Strategy

On 7 April 2022 we announced an updated strategy (RNS Number 5511H), which followed an in-depth strategic review, supported by EY Parthenon, exploring market requirements, customer sentiment, our ability to capture market opportunity, operational capability, and the richness of the AdEPT portfolio.

As a result of this review the Board concluded that the Group was ideally placed to capitalise on its market position and capabilities, and in turn focus on the organic growth opportunities now available, while using its strong cash generation to reduce debt.

The strategy, resulting from this review, is to build upon three pillars: Pillar one – drive organic growth; Pillar two – structure for success; and Pillar three – reduce gearing, all with the express intent of delivering stakeholder value. Further details are given in the chief executive officer's statement.

### Board change

On 7 April 2022, AdEPT announced the retirement of Roger Wilson as a non-executive director from the Board. Roger was a founder investor and has been an inspirational member of the AdEPT Board for 19 years, including 16 years as Chairman and three years as Deputy Chairman. Roger delayed his retirement due to the Covid-19 pandemic.

It has been an absolute delight to work with Roger for so many years. He has been an integral part of the Company and a mentor to many during his time with AdEPT. The Board would like to wish Roger every success in his retirement and thank him for his wise counsel and outstanding contribution.

With two experienced independent non-executive directors on the Board no replacement is required at this time.

1. SIP and VoIP are complementary technologies that enable any type of communication over the internet. VoIP is separately used for IP telephony to transfer the voice traffic through data networks, whereas SIP is a unified communication tool that controls and enhances VoIP capabilities for businesses to enjoy the swift collaboration that could otherwise be impossible with VoIP alone. SIP also provides SIP trunking, a feature that will allow you to connect to other phone networks even when your internet connection is disconnected.

## Chairman's statement continued

### Environmental, Social and Governance (ESG)

AdEPT has a social conscience, with the executive team focused on making the world a better place both for current and future generations. AdEPT has updated the inaugural 17-point plan published during the summer of 2021 and has made positive progress in advancing its position across each of the three pillars of: i) Environmental Responsibility; ii) Social Responsibility; and iii) Governance. This updated plan can be found on AdEPT's investor relations website: [adept-technology-group.co.uk](http://adept-technology-group.co.uk).

As part of carbon reduction activities, in our journey to net zero, we have undertaken our first cross-company carbon measurement activity, to determine our baseline emissions footprint.

It is critical that AdEPT is an exemplary employer to ensure we retain, inspire and nurture our talent. As part of this goal AdEPT is committed to ensuring diversity, equity and inclusivity. We have a team from diverse backgrounds and genders, and we continue to foster balance and promote equal opportunities. This mix of skill sets, experience and backgrounds enables us to perform better.

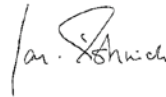
We are investing in our staff with, for example, concerted training programmes, and we are launching a new flexible benefits platform for our staff this year as part of this critical goal.

We have also undertaken our second gender pay gap report which showed modest positive progress. However, like many businesses in our sector, this highlights the challenges of hiring women into senior roles. We will use the findings of this report and work with our staff and stakeholders to shape policies that ensure an appropriate gender balance.

### Outlook

We cannot ignore the potential impact from the ongoing macro-economic challenges facing the UK, the semiconductor shortages, the spectre of higher inflation, and the war in Ukraine. However, with 74% of our revenues from recurring contracts and a significant amount of reoccurring one-off revenues from existing customers the Board is confident in the strength of its talented team and operations, which have shown resilience and continued to deliver growth.

We are buoyed by the completion of Project Fusion, the strong sales finish to the year, and the performance of the Group in Q4. These bode well for the Group's future performance and demonstrate that our updated strategy will bear fruit in a marketplace that, despite the wider challenges beyond our control, continues to require our skills, solutions and exemplary customer service.



**Ian Fishwick**

**Chairman**

4 August 2022





## Chief executive officer's statement

# Delivering progress against strategic ambitions



**Phil Race**  
Chief executive officer

“With our comprehensive portfolio of capabilities, our extensive and strong industry partnerships, and many flagship references from across the public and private sector, all underpinned by the ONE AdEPT platform ensuring that AdEPT is an efficient business, AdEPT is well placed to benefit from these accelerated strategic IT investments.”

### Overview

AdEPT has a clear mission of ‘uniting technology and inspiring people’. This year has seen further advances against this mission – delivering successful projects for public and private sector customers alike, resulting in substantial overall growth. Pleasingly, organic growth in Cloud Centric services was 7%.

During the year we streamlined the Group’s operating structure, moving from five divisions to two, enhanced our relationship with key suppliers which we increasingly treat as partners, and delivered several significant projects. Our progress is being driven by a motivated team achieving high levels of customer satisfaction.

The Datrix acquisition at the start of the period added to our range of leading-edge software-defined network and related security expertise, building on AdEPT’s world class managed services capabilities addressing the converging ICT marketplace, in which customers are increasingly demanding communications, network infrastructure and IT expertise.

Our success in the year was achieved despite the ongoing macro challenges, primarily electronic chip shortages, which continue to impact Technology Product revenues and the completion of some projects dependent on hardware. We are a resilient business, underpinned by a focus on recurring revenue, which comprises a high percentage of total revenues at 74% (FY21: 74%).

I am particularly heartened by the performance of our sales team which added over 100 new customers during the year. Customer demand is steadily gaining momentum across multiple vertical markets and delivered markedly stronger one-off order intake in the last quarter, up over 10% against the preceding nine months. New customer wins, including Multi-Academy Trust, the Co-op, the TUC and the contact centre outsourcer Kura, demonstrate AdEPT’s ability to attract respected organisations.

In short, the demand for digitisation continues, and is fuelling the growth of AdEPT’s Cloud Centric services, with increasing revenues from the provision of managed networks, Microsoft solutions, cloud communications and services relating to cyber security.

### A successful acquisition

At the start of this financial year (April 2021) we completed the acquisition of Datrix, and declared it a ‘game changer’; since then the Datrix team has not disappointed.

Datrix has enabled AdEPT to increase its potential ‘wallet share’ in the ever-expanding ICT space. The introduction of new partnerships and services that allow AdEPT to tap into the fast-growing markets of Software Defined Wide Area Networking (SD-WAN) and Secure Access Service Edge (SASE) is leading to significant sales successes. During the period this team secured significant projects with organisations including Nottinghamshire County Council, the Royal Surrey County Hospital, Public Health England and Trident IP.

The ONE AdEPT platform enabled the rapid integration of the Datrix business ahead of plan and Datrix is now fully integrated into the AdEPT South & Healthcare division.

### A simplifying structure

At the outset of FY22 the AdEPT business was structured as five business divisions: Comms North, Comms South, Education, ITS and Datrix. These each had their own management structures and resultant costs, albeit utilising the same underlying ONE AdEPT platform.

We are constantly looking to optimise AdEPT. As a result of the accelerated progress of Project Fusion we were able to consolidate the business ahead of plan, and during the final quarter of the year announced to the AdEPT workforce the formation of a simplified organisational structure centred around two operating divisions – AdEPT North & Education alongside AdEPT South & Healthcare.

This refinement allowed AdEPT to reduce ongoing operating costs by c.£0.6m. Our plan in FY23 is to further enhance customer service and product penetration as a consequence of this change.



## Chief executive officer's statement continued

### Objectives for FY23

Following the review of our strategy as outlined in the Chairman's statement, we are now focused on three pillars:

- a) **Pillar one – drive organic growth.** Through acquisition AdEPT has become a fully capable, Cloud Centric, managed services business, with a highly skilled workforce and the ability to 'wrap' solutions with consulting expertise to keep customers up to date with fast-changing market requirements.

Following the successful acquisition of Datrrix, AdEPT now has the capability to capture a significant 'share of wallet' from its customers through its comprehensive portfolio of products and services, supported by our strategic partners, delivered by the wealth of talent within the business.

**Objective for FY23** – capitalise on our market position, strengthen relationships with our key partners and customers, focus on the growth of our team and its skill set and in turn increase our revenue.

- b) **Pillar two – structure for success.** The ONE AdEPT platform has created a foundation for greater operational efficiency, cross-selling and operational insight. All employees across AdEPT can now take advantage of a single set of operational and financial applications wherever they reside, which facilitates flexible working for our staff.

This has enabled AdEPT to accelerate cost reductions arising from divisional and management consolidation, with the Group transitioning from five business entities at the beginning of FY21 to two, which reflect our geographical and market focus: AdEPT North & Education, and AdEPT South & Healthcare, as we move into FY23.

**Objective for FY23** – improve margins and cross-selling through improved operational efficiency, a greater focus on market verticals, enhanced inter-team working and transparent systems.

- c) **Pillar three – reduce gearing.** The Group has a historically low capital expenditure requirement and a proven ability to generate free cash flow. The strategic objective to focus purely on organic growth will facilitate the debt reduction.

### The market we serve

As part of the in-depth strategic review we explored market requirements, customer sentiment, our ability to capture market opportunity, operational capability, and the richness of the AdEPT portfolio. This extensive research revealed several reassuring data points, in particular that we have a large market to attack (the UK Core Addressable Market<sup>1</sup> for AdEPT services being £11 billion), with fast growth aspects, in particular cloud services (c.15% CAGR).

We are already witnessing positive trends in respect of AdEPT's 'cloud first' focus including:

- > customers looking to consume cloud hosted offerings through 'as a Service' models' (XaaS);
- > sustained reliance on cloud and collaboration tools to enable remote working for a distributed workforce; and
- > the convergence of telecom and IT infrastructure with data, voice and applications shifting to the internet.

340+  
Employees

9  
Operational locations

17k+  
AdEPT customers

2m+  
Users of our  
education apps

4k+  
School customers

50+  
NHS Trusts

130+  
Local councils



In addition, the ongoing programme to retire the BT 'copper telephony network' by 2025, otherwise known as the 'PSTN<sup>2</sup> switch off', will only serve to accelerate the migration to Voice over IP (VoIP) products, as well as drive higher demand for broadband connections as businesses move to unified communications. These changes encourage conversation with providers like AdEPT and in turn create an opportunity to upsell other services.

On the back of these trends, we are finding that our consulting services such as Cloud Readiness Assessments, IT Health Checks and Security Risk Assessments are proving useful gateways for clients to explore our extended range of services. These take customers on a journey to investigate our overarching propositions which are to help customers:

- > **be agile** – with seamless workflow and business insight;
- > **be unified** – providing cloud flexibility, IT rationalisation, 'as a Service' provision and ERP capability;
- > **be secure** – across data, the user and the network with security assurance;
- > **be resilient** – whether that's the network or systems;
- > **be successful** – empowering our customers to engage seamlessly, engage digitally and engage fast; and
- > **be a great employer** – with a modern workplace, whilst reducing environmental impact.

All of which have great references, powered by our strategic partners, and present exciting opportunities.

### Investment for growth

The AdEPT strategy is to remain 'capex-light' spending less than 2% of revenues on capital projects. However, AdEPT continues to judiciously invest in AdEPT Nebula, its hybrid cloud platform, as this is proving attractive to those customers on the journey to the cloud.

This platform provides private cloud hosting (60 customers), backup services (300 customers backing up over one petabyte of data), a resilient and cost effective managed network (227 customers transferring c.80Gbps over 184Gb bearers), 'as a Service' security capability (52 school customers taking filtered connectivity) and a range of complementary services. It is the home for hosted communications, hosted Enterprise Resource Planning (ERP) and hosted School Management Information Systems (MIS) solutions – all in a secure environment.

I am particularly pleased to see our relationships with key strategic partners going from strength to strength, as they are crucial to our success. Our portfolio is impressive – with expertise and references working with globally respected players such as Microsoft, Cato, Extreme, Avaya, Gamma, LG Ericsson, 8x8, Fortinet and BT.

We are building on this portfolio with an enhanced relationship with Sage, a provider of ERP software. ERP software is used by organisations to manage day-to-day business activities such as accounting, procurement, project management, risk management and compliance, and supply chain operations. AdEPT has become a Sage Intacct reseller, a cloud offering. This is all part of our journey to become a significant 'one stop shop' for our customers.

### People

On 31 March 2022, the AdEPT team totalled 340. This talented and diverse team, strengthened by the acquisition of Datrix, is enabling us to achieve increasingly high levels of customer satisfaction and product penetration. We will continue with our aim to be an exemplary employer and I would like to thank everyone across AdEPT for their exceptional commitment in the year.

### Current trading and outlook

With our comprehensive portfolio of capabilities, our extensive and strong industry partnerships, and many flagship references from the public and private sectors, all underpinned by the ONE AdEPT platform which ensures that the AdEPT Group operates efficiently, AdEPT is well placed to benefit from the acceleration in strategic IT investments as clients continue to assess their long-term ICT requirements.

As a result, I remain confident in the long-term market opportunity for AdEPT, which has been enhanced by the dramatic changes to working patterns, coupled with the rising demand for secure digital services in all their guises.

Our mission remains 'uniting technology, inspiring people'. We are optimistic for the future of the technology market, and in turn for the prospects of AdEPT and our highly talented team.



**Phil Race**  
Chief executive officer  
4 August 2022

1. CAM is defined as total UK spend by SMBs in the corporate sector (<250 FTE) and all organisations in the public sector on AdEPT's core product offerings (e.g. hosted cloud, voice and connectivity but excluding non-core offerings like IaaS) in regions of the country in which AdEPT has a strong presence (so excluding Scotland, the North of England and Northern Ireland).
2. PSTN is the Public Switched Telephone Network.

Case study

# AdEPT helps the UK's largest trade union federation transform its technology to support its mission to make working life better for its staff and for everyone

Due to the pandemic, flexible working has captured the public's attention, stoking fierce debate about conventional working practices and even the possibility of a four-day working week. But this topic long predates Covid-19, with one example of this being the Flex for All campaign, launched in 2019.

Among the many organisations supporting this campaign is the Trades Union Congress (TUC), which not only represents 48 affiliate trade unions and 5.5 million working people, but also advocates flexible working for its employees, too.

One way the TUC is making this happen for its staff is through the better use of ICT. And so, over the past six years, Virtual CIO Simon Parry has led the transformation of the organisation's technology, which in 2021 began a new partnership between the TUC and AdEPT.

Despite having a huge voice, the TUC does not have an enormous ICT budget. Consequently, when Simon joined the organisation in autumn 2016, an immediate focus was to streamline the TUC's ICT

infrastructure – to reduce inefficiencies; simplify supplier management; and improve connectivity, security and resilience.

By early 2020, many TUC systems had been moved to the cloud. And at the same time, some of its ICT contracts were ending, so it invited suppliers to tender, to which AdEPT responded. But with the arrival of the first lockdown and mounting concerns about the pandemic, the organisation decided to extend its existing ICT contracts for a year, shortlisting the bidders it wanted to return to in the future, including AdEPT.

Fortunately, the transformation work that Simon had led from 2016 meant that adapting to home and remote working during the pandemic was relatively straightforward for the TUC. But there was still more work to be done to simplify the TUC's systems and improve their resilience. And it is why AdEPT's proprietary platform, Nebula, proved to be so attractive.

At the heart of Nebula is a 'thread' of network communications, to which other services can be added – such as firewalls, hosted software and voice systems. It can

also co-exist with other applications – whether from on-site servers or the public cloud – and can reduce costs by providing a range of competing options from AdEPT partners. At the same time, running from multiple data centres, Nebula provides all-important resilience, helping organisations with their disaster recovery and business continuity objectives.

Delivered on time and within budget, the project and subsequent support have helped, and continue to help, the TUC streamline and strengthen its ICT.

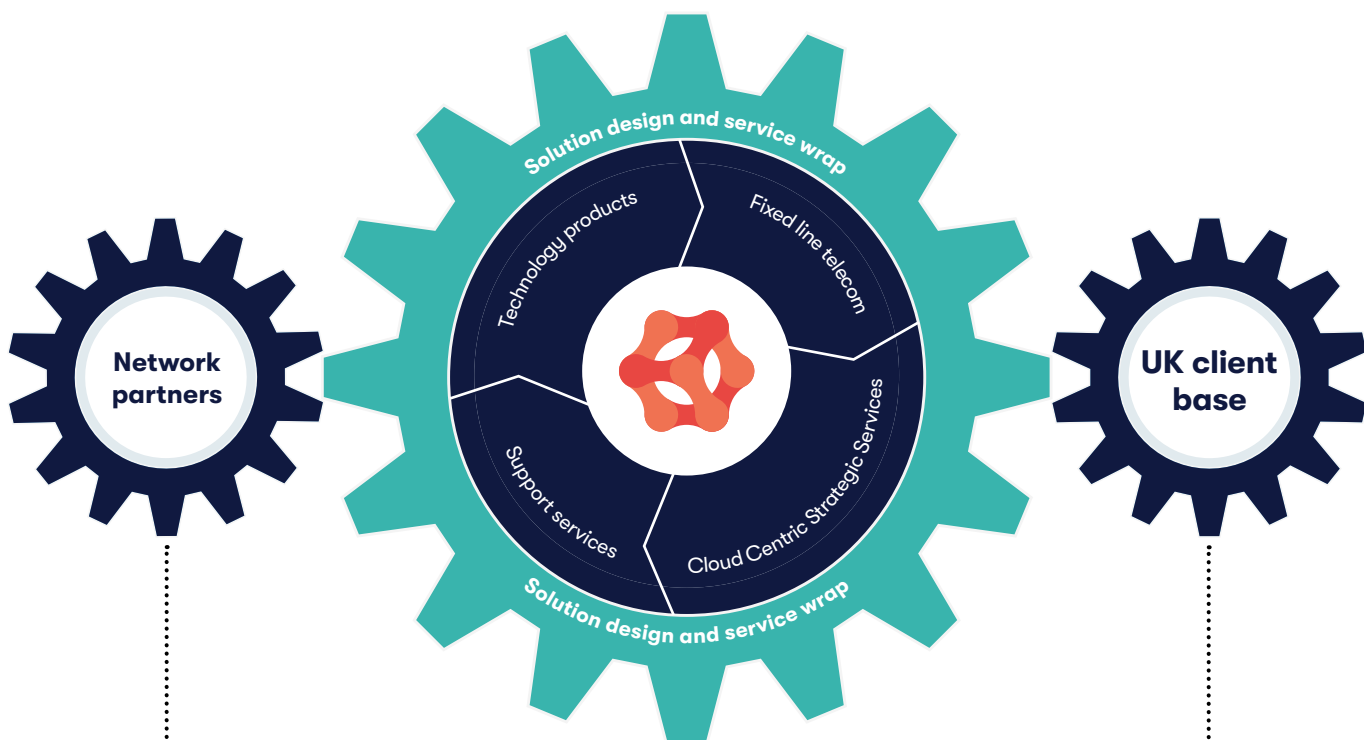
It means the organisation benefits from more resilient and cost effective ICT – and its employees benefit from technology that performs more reliably, whether working on site or from home, and is more adaptive to change, allowing for more flexible work. Ultimately, at a time when working life is facing immense and unsettling change, all of these benefits will help in all the TUC does to improve the working lives for the people of the UK.

## AdEPT supports the TUC with the following services:

- > WAN connectivity across six sites
- > Microsoft 365 licensing
- > Remote desktop (RDS) hosting for finance software
- > Teams telephony solution
- > Microsoft Windows Defender
- > Network upgrades and refreshes
- > Third-line infrastructure support
- > Server backup
- > LAN infrastructure refresh
- > Microsoft 365 backup



# Uniting technology, inspiring people



## Network partners

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

In a world where there is simply too much technology to choose from, our mission is to use our expertise and strategic partnerships to ensure customers get the right solution to their individual requirements from a dedicated partner. AdEPT selects its partners on the basis of technical and financial stability, in order to manage the supply risk associated with a business critical supply.

## AdEPT solution design and service wrap

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

We specialise in converging IT, communications and connectivity to offer you comprehensive, uncomplicated solutions, proactively supported, that enable your organisation to operate without technical headaches.

## UK client base

With over 300 people within the AdEPT team we have the depth and breadth of expertise to deliver, yet we are small enough to care for each and every customer.

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

## Our market

# The market in which we operate

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

The growing convergence of telecoms, IT services and infrastructure is set to benefit larger businesses such as AdEPT which have strong capabilities and expertise across multiple product segments.

## AdEPT product portfolio overview

### Cloud Centric Strategic Services

#### Data networking

- > Data
- > ADSL/broadband

#### Cloud services

- > Managed desktop and server solutions
- > Software (incl. M365 Teams and security)

#### Voice and collaboration

- > VoIP
- > Mobile

#### Professional services

- > Consultancy
- > Implementation
- > Cloud migration

### Support services

- > Equipment rentals
- > Network support
- > Online backup

- > Maintenance
- > IT support services

### Technology products

- > One-off hardware and software incl. computers and servers, and specialist software licences (e.g. M365 licences, proprietary school software and Sage)

### Traditional fixed line

- > Calls
- > Non-geographic numbers (NGN)
- > Wholesale line rental (WLR)
- > ISDN/PSTN

## The market opportunity

AdEPT operates in a core addressable market (CAM) of c.£11 billion, and can potentially address a wider total addressable market (TAM) opportunity of £37 billion. AdEPT's CAM market sizing is focused on 82 regions of the UK, in which AdEPT has strongest presence (based on current revenue from existing customer and business operations). London and South East England are the largest regions, and together comprise over 50% of the CAM and AdEPT's revenue.

CAM = defined as total UK spend by SMBs in the corporate sector (<250 FTE) and all organisations in the public sector on AdEPT's core product offerings (e.g. hosted cloud, voice and connectivity) in regions of the country in which AdEPT has a strong presence.

TAM = defined as total spend by UK organisations of all sizes, across all regions of the country, on products and services which AdEPT currently provides or could potentially provide in the medium term (e.g. cyber security services).

## Macro market trends and drivers

There are a number of positive macro tailwinds, driving customers to increase ICT spend and adopt new technologies. AdEPT is ideally positioned to address this customer opportunity.

### Changing pattern of demand

High growth in overall SMB traffic and data usage, driven by increased adoption of new services which are more 'data heavy' and leverage cloud infrastructure

Growing popularity of 'as a Service' model (XaaS) which proves a more cost effective and flexible option for SMBs, whilst suppliers prefer the predictability of revenue and cost

### Covid-19 long-term impact

Increased proportion of SMB employees adopting hybrid/remote working patterns post-Covid-19 will lead to sustained reliance on cloud and collaboration tools to enable remote working for a distributed workforce

The crisis has accelerated business transformation initiatives towards cloud-based IT

### Convergence of telecom and IT infrastructure capabilities

There is a growing convergence of telecoms, IT services and infrastructure, with data, voice and applications shifting to the internet

It also creates convergence among different types of providers and distribution channels, increasing competition and opportunities for collaboration

### Next gen technologies on the horizon – 5G and FTTP, PSTN/ISDN switch-off

Large ISPs and AltNets are rolling out FTTP at an accelerated pace – FTTP is projected to be 37% of B2B fixed connections by 2025

BT/Openreach's announcement of PSTN/ISDN switch-off by 2025 will have a negative impact on AdEPT's fixed line revenue initially, but will accelerate the migration to VoIP as well as drive higher demand for broadband connections as businesses move to unified communications

5G is being rolled out rapidly – it is expected to drive a surge in the sales of 5G-enabled handsets and data

### Growing SMB segment

UK SMBs have shown a strong rebound in birth rates post recessions driving up demand

SMBs are the fastest growing segment of the IT services market as a result of increased outsourcing

SMBs are expected to bounce back as they did post the 2008–09 financial crisis

## Our strategy

# Enabling expansion, investing in customer retention

The strategy, resulting from the recent strategic review, is to build upon the following three pillars going forward, all with the express intent of delivering stakeholder value.

## 1. Drive organic growth



The Board is agreed that the Group is now ideally placed to capitalise on its market position and focus on the organic growth opportunities available.

### Drive organic growth

Through acquisition AdEPT has become a fully capable, Cloud Centric, managed services business, with a highly skilled workforce and the ability to 'wrap' solutions with consulting expertise to keep customers up to date with fast-changing market requirements.

Following the successful acquisition of Datrix, AdEPT now has the capability to capture a significant 'share of wallet' from its customers through its comprehensive portfolio of products and services, supported by our strategic partners, delivered by the wealth of talent within the business.

**Objective for FY23** – capitalise on our market position, strengthen relationships with our key partners and customers, focus on the growth of our team and its skill set and in turn increase our revenue.

# 7%

Cloud Centric organic revenue growth



## 2. Structure for success



AdEPT has now adopted a full-flex working model, powered by the ONE AdEPT platform, delivered by Project Fusion. The success of ONE AdEPT has enabled AdEPT to accelerate cost reductions, transitioning to two divisions.

### Structure for success

The ONE AdEPT platform has created a foundation for greater operational efficiency, cross-selling and operational insight. All employees across AdEPT can now take advantage of a single set of operational and financial applications wherever they reside, which facilitates flexible working for our staff.

This has enabled AdEPT to accelerate cost reductions arising from divisional and management consolidation, with the Group transitioning from five business entities at the beginning of FY21 to two, which reflect our geographical and market focus: AdEPT North & Education, and AdEPT South & Healthcare, as we move into FY23.

**Objective for FY23** – improve margins and cross-selling through improved operational efficiency, a greater focus on market verticals, enhanced inter-team working and transparent systems.

# 83%

Employee Net Promoter Score

## 3. Reduce gearing



The strategic objective of achieving organic growth creates the opportunity to focus on decreasing debt, with the plan to reduce the Group's EBITDA: senior net debt ratio.

### Reduce gearing

The Group has a historically low capital expenditure requirement and a proven ability to generate free cash flow. This cash-generative business model is to be applied to deliver the strategic objective to focus purely on organic growth which will facilitate the debt reduction. This reduction of the senior debt facility will provide increased shareholder value from reduced financing costs.

**Objective for FY23** – reduction to absolute senior debt level and deliver reduction to gearing.

# £50m

Committed senior debt facility

## Business review

# Cloud Centric product organic revenue growth focus



**John Swaite**  
Finance director

### Principal activities and review of business

The principal activity of the Group is the provision of managed services for cloud, digital platforms, unified communications and connectivity solutions to both domestic and business customers. A review of the business is contained in the Chairman's and Chief executive officer's statements on pages 4 to 9 and the highlights are summarised in this strategic report on pages 16 to 20.

### Summary of three year financial performance

	Year ended March				
	2022 £'000	Year on year %	2021 £'000	Year on year %	2020 £'000
Revenue	<b>68,082</b>	17.7%	57,851	(6.2%)	61,688
Gross profit	<b>32,432</b>	17.3%	27,640	(8.4%)	30,232
Underlying EBITDA	<b>11,892</b>	21.0%	9,830	(16.1%)	11,709
Net senior debt	<b>29,353</b>		25,603		27,938

### Revenue and gross margin

Total revenue increased by 17.7% to £68.1m (FY21: £57.9m). The business is split into two primary segments, fixed line (encompassing call revenues and related fixed telephony line provision) and managed services. In respect of managed services versus fixed line revenues, during the year AdEPT has continued to grow its managed services business through a combination of organic contract wins and company acquisitions.

The Datrix business was fully integrated into the AdEPT systems and processes with immediate effect following the acquisition in April 2021, and this has not only yielded operational efficiencies with the acquired customer base being supported by a mix of existing and acquired team members but has also delivered customer contract renewals, new organic contract wins and successful cross-sell post-acquisition.

The revenue and gross margin breakdown is viewed through four strategic revenue streams, where managed services is split into three sub-segments – Cloud Centric Strategic Services, Support Services and Technology Products:

£'000	March 2022		March 2021	
	Revenue	Gross margin	Revenue	Gross margin
Cloud Centric Strategic Services	<b>29,512</b>	<b>13,214</b>	25,092	11,866
Support Services	<b>17,127</b>	<b>12,924</b>	11,817	9,965
Traditional Telephony	<b>8,582</b>	<b>3,199</b>	10,739	3,999
Technology Products	<b>12,861</b>	<b>3,095</b>	10,203	1,810
<b>Total</b>	<b>68,082</b>	<b>32,432</b>	57,851	27,640

**Cloud Centric Strategic Services** – Our strategy is to focus on Cloud Centric Strategic Services (a segment including data connectivity, hosting services, hybrid and public cloud, cloud telephony and professional services). This clear focus with a combination of organic growth plus the acquired contribution from Datrix delivered a £4.4m year-on-year increase in revenues to £29.5m (FY21: £25.1m). On a pro-forma basis Cloud Centric Strategic Services revenues have increased by 6.6% organically.

Revenues from cloud telephony increased by 49.0% year on year to £4.0m (FY21: £2.7m), of which 29.6% is organic uplift and £0.4m is the pro-forma acquisition contribution from Datrix. The organic growth is a result of our successful activities to migrate customers from traditional fixed line products to new IP-based solutions combined with success in gaining contracts with new logo customers. This is a trend which has been aided by the increased demands for flexible and remote working resulting from the Covid-19 lockdowns.

Within this segment Professional Services has grown to £5.1m (FY21: £4.5m) which represents 7.7% organic reduction when taking into account the pro-forma Datrix acquisition contribution. This reduction arises mainly due to the inability to deliver project management and installation services associated with the backlog of equipment orders which have been delayed by the global supply chain issues arising firstly from Covid-19 and latterly by the war in Ukraine. The inability to secure equipment supply within normal lead times has delayed the go-live and revenue recognition for many projects, which also has a knock-on impact for revenues associated with the recurring services attached to the equipment, such as data connectivity and support services.

Revenues from data connectivity services have increased by 10.6% to £15.7m (FY21: £14.2m), which is 1.0% organic growth with a 9.6% pro-forma acquisition contribution from Datrix. The demand for faster connectivity and greater bandwidth continues; however, during the Covid-19 lockdown period lead times for some new service installations were extended. Despite this challenge, the Group has been successful in continuing to win new logo connectivity customers, whilst also cross-selling and upgrading existing customers to faster and more resilient services.

**Support Services** – Support Services revenues demonstrated resilience, increasing by £5.3m to £17.1m (FY21: £11.8m) principally through the acquisition contribution from Datrix. Early FY22 was a challenging period for securing new support contracts with businesses being reluctant to change support provider and sign into new term contracts in the aftermath of the pandemic. However, Q4 FY22 saw some change to this situation for telephony and IT services with several notable contract wins including Trident IP, Nottingham County Council and Royal Surrey NHS, all of which should yield benefit in FY23.

**Technology Products** – An increase of £2.7m revenue from Technology Products (hardware and software sales) was wholly driven by the acquisition contribution from Datrix, with a pro-forma organic reduction of 10.5%. Organic Technology Products revenues were heavily impacted by the supply chain issues arising from the global chip shortage resulting in a substantially increased year-end backlog of secured sales orders for which the equipment has an extended lead time (up to twelve months in some cases). In addition, we have seen some continued latency of demand as customers delay investment in strategic infrastructure initiatives. However, whilst Technology Products sales were less resilient the product mix returned to a more normalised mix, which has resulted in an improvement in gross margins (FY22: 24.1% vs FY21: 18.2%).

**Traditional Telephony** – The structural decline in Traditional Telephony (fixed line services) has been further accelerated in FY22 with a 20.1% reduction from FY21. This is largely as anticipated given that Openreach is continuing with its strategy to switch off the copper telephone network and there is a clear shift to messaging and IP-based services over traditional fixed line and calls services. Additionally, the last twelve months' fixed line revenues have been impacted by substantial reductions in call revenue as a result of access restrictions to business premises during the multiple Covid-19 lockdowns resulting in businesses using other means of communication rather than the desk-based telephone. Although the UK lockdowns appear to have now ended, there continues to be low take up for the return to the office, and, therefore, we do not anticipate a return in call volumes.

The ongoing reduction in the proportion of AdePT revenues linked to Traditional Telephony is a result of our strategy to diversify away from Traditional Telephony into Cloud Centric Strategic Services. Following the acquisition of Datrix, which had no revenues from Traditional Telephony, and the organic decline, Traditional Telephony now accounts for only 13% of Group revenues (FY21: 19%).

#### **Recurring revenues versus one-off revenues**

In respect of recurring revenues versus one-off revenues, the proportion of AdePT revenue being generated from recurring products and services (being all revenue excluding one-off projects, hardware and software) remains high at 73.6% of total revenue (FY21: 74.1%). All of the managed services product sets include an element of hardware supply and installation services, which, by their nature, are project based and not fixed recurring revenue streams; however, a high proportion of hardware supply and installations are further products and services being supplied to the existing customer base, sometimes classified as 'reoccurring revenues'.

#### **Market sector analysis**

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

The proportion of total revenue generated from public sector and healthcare customers was 56.5% in the year ended 31 March 2022 (FY21: 55.5%). The proportion has been maintained as the organic customer contract awards have been split between public sector and commercial customers, and takes into account the acquired Datrix customer base.

The Group is continuing to focus its organic sales efforts on: a) selling a wider portfolio to existing customers; and b) adding and retaining larger customers whilst complementing this with a new customer acquisition strategy. AdePT is managing the customer risk with a wide spread of business sectors and low customer concentration, with the top ten customers accounting for 28.0% of total revenue (FY21: 23.0%) and no customer accounting for more than 10% of the total.

#### **Gross margin**

Gross margin percentage was stable at 47.6% (FY21: 47.8%). The gross margin percentage from managed services reduced to 50.2%, due to third-party support service contracts with the Datrix acquisition blending down the gross margin on support services, although noting that these services do not require the same level of in-house support and therefore the operating cost (headcount effort) in relation to these contracts is reduced.

Recurring gross margin was 51.0% (FY21: 51.3%). The marginal reduction reflects the decrease in higher relative margin online backup services combined with a reduction to software margins from an increased take-up of lower relative margin product, such as Microsoft 365, with this software representing a growing recurring revenue stream.

The gross margin generated from non-recurring products and services reduced to 39.6% (FY21: 40.6%) with the decrease over the prior year driven by an increase in the volume of third-party professional services costs.

The gross margin for fixed line services was flat at 37.3% (FY21: 37.3%) with management of the impact of changes to wholesale input costs through end-user pricing.

## Business review continued

### Underlying EBITDA

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

Below is a reconciliation of underlying EBITDA to the reported loss before tax:

	2022 £'000	2021 £'000
<b>Underlying EBITDA</b>	<b>11,892</b>	9,830
Acquisition fees	(1,371)	—
Restructuring costs	(2,023)	(974)
Share option charges	(62)	(67)
Adjustment to deferred consideration	(33)	—
Depreciation	(1,433)	(1,532)
Amortisation	(7,246)	(5,793)
Profit on sale of assets	—	133
Interest	(2,752)	(2,102)
<b>Loss before tax</b>	<b>(3,028)</b>	(505)

Underlying EBITDA increased by 21.0% to £11.9m (FY21: £9.8m), of which 1.6% is organic and 19.4% is the pro-forma acquisition contribution from Datrix. The organic underlying EBITDA growth has been achieved through both organic revenue growth in recurring managed services and operational efficiency from further Project Fusion business process automation and the internal restructuring of the Group from five to two operating divisions.

The Group incurred £2.0m of restructuring costs from the ongoing headcount efficiencies generated from Project Fusion combined with some realignment of the operating cost base of the Group as a result of the streamlining of the senior management team as the business was repositioned to two core operating divisions, AdEPT South & Healthcare and AdEPT North & Education. These represent redundancy, settlement and salary costs creating a permanent ongoing reduction to the operating costs of the Group and will benefit future periods.

Acquisition fees include the cost of legal and financial due diligence, legal documentation and corporate finance fees in relation to the Datrix acquisition. These also include the one-off cost of the in-depth strategic review conducted by EY Parthenon, exploring market requirements, customer sentiment, our ability to capture market opportunity, operational capability and the richness of the AdEPT portfolio.

### Depreciation

The Group has continued to invest in strengthening AdEPT Nebula – Nebula is the AdEPT owned platform providing a capability that supports over 650 customers who take various services from our portfolio of cloud, security, business continuity and disaster recovery, hosted voice, software apps and data connectivity.

£0.7m of depreciation relates to the liability accounting under IFRS 16 right of use assets (FY21: £0.8m). The Group has no ownership of these assets. The cash cost in respect of the right of use asset leases is

included within the cash flow statement under the heading 'Payment of lease liabilities'.

### Finance costs

Total interest costs have increased by £0.7m to £2.8m (FY21: £2.1m). This income statement cost includes the notional interest charge for the discounting of the Datrix deferred consideration, plus the amortisation of the bank arrangement fees. Cash paid interest increased by £0.3m (18.3%) to £1.9m largely from the increase in the average level of net borrowings to £31.3m in FY22 (from £26.1m in FY21). The Group has continued to focus on careful management of customer credit terms and working capital as we emerge from the Covid-19 pandemic as it was considered a lead indicator of customer trading and financing challenges. The Group has used treasury management of surplus cash balances to minimise the amount of drawn funds during the year to minimise interest costs.

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

### Loss before tax

This year reported loss before tax was £3.0m (FY21: £0.5m). The reduction of £2.5m is driven primarily by £1.4m of acquisition related fees following the acquisition of Datrix in April 2021, combined with a £1.0m increase to the restructuring costs from the further headcount efficiencies generated from the Project Fusion initiative combined with some realignment of the operating cost base of the Group as a result of the streamlining of the senior management team as the business is repositioned to two core operating divisions, AdEPT South & Healthcare and AdEPT North & Education.

The operating loss of £0.2m was impacted by non-cash items including:

- > £7.2m amortisation of intangible assets arising from acquisitions undertaken during prior years;
- > £0.7m non-cash depreciation; and
- > £0.1m share-based payments.

Reported loss before tax for the year of £3.0m includes the following cash items:

- > £1.9m cash financing costs;
- > £2.0m restructuring costs;
- > £1.4m acquisition related fees; and
- > £0.7m of depreciation which is a cash item related to lease rentals under IFRS 16.

### Income tax

The income tax charge in the year has increased to £2.2m (FY21: £0.2m credit). This significant movement is driven entirely by the change in the deferred tax provisioning rate from 19% to 25% (the UK Government 2021 Budget announced an increase in the tax rate to 25% from 1 April 2023) which has generated an income statement tax debit of £2.8m in relation to the opening deferred tax balance. This is purely an accounting entry which has no cash impact and the deferred tax liability will reverse out with credits to the income statement at the higher rate in future periods, unless there is a subsequent change by the UK Government to the UK corporation tax rate. Excluding the one-off impact of the change in the deferred tax rate the income tax expense is a net credit of £0.6m (FY21: £0.2m credit).

## Earnings per share

Adjusted profit before tax, adding back amortisation, restructuring costs and interest costs discounting, and removing deferred tax credits, increased 23.0% to £6.9m (FY21: £5.6m).

Basic earnings per share was negative 20.90p (FY21: 1.36p negative), with this figure including the non-cash impact of the £2.8m deferred tax debit for the change in the deferred tax provisioning rate from 19% to 25%. Adjusted earnings per share is used to reflect the non-cash nature of items which are charged to the income statement and non-trading items, such as acquisition costs, to give a better indicator of the underlying cash generation of the Group. Adjusted fully diluted earnings per share, based on the profit for the year attributable to equity holders adding back amortisation, share option charges, and restructuring and acquisition costs, increased 22.9% to 27.46p per share (FY21: 22.34p).

## Dividends and dividend per share

On the back of strong operating cash flow generation AdePT is declaring a final dividend of 1.0p per share, which is subject to shareholder approval at the annual general meeting later this year. This dividend is expected to be paid on 6 October 2022 to shareholders on the register on 16 September 2022 (ex-dividend date being 15 September 2022). The Board constantly monitors shareholder value and is confident that the continued strong cash generation will support a progressive dividend policy.

## Cash flow

The Group benefits from an excellent cash-generating operating model. Low capital expenditure results in a high proportion of underlying EBITDA turning into cash. The proportion of reported EBITDA which turned into net cash from operating activities before income tax was 108.4% (FY21: 89.3%).

The income statement includes many non-cash items; this is a summary of the operating cash flow and other cash movements in net debt:

	2022 £'000	2021 £'000
<b>Operating cash flow</b>	<b>8,499</b>	8,856
Net working capital	<b>608</b>	(880)
Payment of lease liabilities	<b>(684)</b>	(866)
<b>Free cash flow</b>	<b>8,423</b>	7,110
Income taxes	<b>(1,024)</b>	(598)
Capex	<b>(1,249)</b>	(1,034)
Cash interest	<b>(1,897)</b>	(1,603)
<b>Cash flow before acquisitions</b>	<b>4,253</b>	3,875
Acquisition consideration	<b>(8,206)</b>	(1,798)
<b>Cash movement in net debt</b>	<b>(3,953)</b>	2,077
Opening net debt	<b>(25,603)</b>	(27,993)
Movement in cash equivalents	<b>(3,953)</b>	2,077
Non-cash loan movements	<b>203</b>	313
<b>Closing net debt</b>	<b>(29,353)</b>	(25,603)

Overall working capital efficiency has generated £0.6m of cash during the year; this is despite a £0.3m increase to year-end inventories in relation to advance purchase of equipment to secure supply ahead of the busy school Easter holiday period in April 2022. Customer payment periods have been a focus for the Group since the start of the Covid-19 pandemic as they are considered a lead indicator of potential future trading and cash issues within the customer base. At the year end the reported trade receivables were abnormally inflated by £3.3m in relation to a pass-through contract where AdePT is acting as agent and has no contractual liability and therefore will be recognising the revenue on an agency basis. Excluding this customer receivable (which has been paid in full post-year end), customer payment periods were 44 days (FY21: 44 days). The Group has consciously continued to meet supplier payments on time throughout the year.

Income taxes paid in cash during the year increased to £1.0m (FY21: £0.6m). There is a £0.1m repayment due from HMRC which has taken longer than expected to be processed due to the decision by the Company to end the HMRC Group Payment Arrangement to reduce the costs of administering the scheme.

Cash interest paid has increased during the year to £1.9m (FY21: £1.6m), which arises from the £5.2m increase in average net borrowings against the prior year in relation to the acquisition consideration paid for Datrix.

Cash outflows for FY21 in relation to acquisitions amounted to £8.2m, all of which related to Datrix. The initial consideration of £6.5m was paid upon acquisition, with a further £0.5m paid upon finalisation of the completion net debt, £0.3m paid following the successful completion of the integration of Datrix onto the Project Fusion platform and £0.9m of the escrow funds released upon successful renewal of two key customer contracts.

## Capital expenditure

The Group continues to operate an asset-light strategy and has low capital requirements; therefore, expenditure on fixed assets is low at 1.9% of revenue (FY21: 1.8%). The capital expenditure in the current year arises from AdePT investing a further £0.3m in the development of the network connecting three data centres (which, combined with other capabilities and services, is known as 'AdePT Nebula'). AdePT Nebula is built around the core data centre in Orpington, which is owned by AdePT. The network allows AdePT to provide its own cloud hosting capability, security, business continuity and disaster recovery, cloud hosted voice, software apps and data connectivity.

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

Over the last twelve months the AdePT team has continued to work hard on the 'ONE AdePT' project, christened 'Project Fusion', including initiatives in relation to sales, marketing, CRM systems, human resources, finance and branding. A further investment of £0.5m has been made over the last twelve months, which includes the cost of third-party consultancy and some capitalisation of the internal development team's time spent dedicated to the project. Despite the continued challenges of lockdown and remote working, all operating divisions have been migrated to the centralised CRM and finance platforms, with over 95% of Group employees now using and benefiting from the platform.

## Business review continued

### Payments of lease liabilities

As required under IFRS 16, the balance sheet value of tangible fixed assets includes the discounted value of the remaining lease rentals for any material agreements which have a lease term greater than twelve months. The net present value of any new leases is included in tangible fixed assets. These are not upfront cash purchases as the rentals are paid on a monthly or quarterly basis and therefore the cost is not included within capital expenditure; instead the cash outflows from the lease agreements are included in the cash flow statement under the heading 'Payments of lease liabilities' and amounted to £0.7m in the current year (FY21: £0.9m).

### Business combinations

On 12 April 2021 the Company acquired the entire issued share capital of Datrix Limited ('Datrix'), a well-established, award-winning supplier of advanced cloud-based networking, communications and cyber security solutions, headquartered in London, with expertise in the growing Software Defined Wide Area Networking (SD-WAN) market focused on the public and healthcare sector. The vendors and the senior management team responsible for the strategic direction, technical development and day-to-day operations of Datrix have been retained within the business post-acquisition. Initial consideration of £9.0m, on a debt-free, cash-free basis, was paid in cash. Pursuant to the terms of the share purchase agreement, the effective date of the acquisition was 1 April 2021. Further contingent deferred consideration of up to £7.0m is payable in cash dependent upon the trading performance of Datrix in the twelve month period ended 31 March 2022. The contingent deferred consideration will be determined by reference to the gross margin of the acquired business and applying the contingent deferred consideration calculation as specified in the share purchase agreement. The final amount of deferred consideration of £4.3m was paid on 1 July 2022.

The fair value of the assets and further details on the acquisition are described in Note 29 of the financial statements.

### Net debt and bank facilities

A key strength of AdEPT is its consistent, proven ability to generate strong free cash flow and therefore support net borrowings. As a result of the Group's focus on underlying profitability and cash conversion, net operating cash flow after taxes but before bank interest paid of £8.1m was generated during the year ended 31 March 2022 (FY21: £7.4m). This cash flow generation represents 96.2% conversion of reported EBITDA (FY21: 82.7%).

Opening cash plus the free cash flow generated in the year and borrowing drawdowns from the senior debt facility have been used to fund £8.2m acquisition consideration and £1.3m of capital expenditure on tangible and intangible assets. Net senior debt, which comprises cash balances and senior bank borrowings (excluding IFRS 16 liabilities), has increased to £29.4m at the year end (FY21: £25.6m).

### Segmental key performance indicators (KPIs)

The segmental KPIs outlined below are intended to provide useful information when interpreting the accounts. 87% of revenue and EBITDA is generated from managed services (FY21: 81% of revenue and EBITDA).

	Fixed line services £'000	Managed services £'000	Total £'000
<b>Year ended 31 March 2022</b>			
<b>Revenue</b>	<b>8,582</b>	<b>59,500</b>	<b>68,082</b>
<b>Gross profit</b>	<b>3,200</b>	<b>29,232</b>	<b>32,432</b>
<b>Gross margin %</b>	<b>37%</b>	<b>49%</b>	<b>48%</b>
<b>Underlying EBITDA</b>	<b>1,515</b>	<b>10,377</b>	<b>11,892</b>
<b>Underlying EBITDA %</b>	<b>18%</b>	<b>17%</b>	<b>17%</b>
Year ended 31 March 2021			
Revenue	10,739	47,112	57,851
Gross profit	3,999	23,641	27,640
Gross margin %	37%	50%	49%
Underlying EBITDA	1,881	7,949	9,830
Underlying EBITDA %	18%	17%	17%

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

### Section 172 requirements of the Companies Act

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



**John Swaite**  
Finance director  
4 August 2022

## Case study

## Project Fusion

# Creating 'ONE AdEPT'

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

During the last twelve months we have made continued progress including initiatives in relation to sales, marketing, systems, finance and branding. Following the acquisition of Datrix in April 2021, the Project Fusion team worked hard and managed to complete the full integration of Datrix to the ONE AdEPT platform within four months of the acquisition. The speed of integration for acquired businesses is testament to the expertise of the Project Fusion team. On 1 April 2022, the Group's final site (Orpington) was migrated into Project Fusion, which is already providing increased efficiency and consistency of reporting. All nine operational sites are fully integrated and live within the Project Fusion platform.

The integration of divisions and streamlining of the operations would not have been possible without Project Fusion and it has provided a significant advance in process automation and delivery of consistently high levels of service from the customer experience and service delivery teams.

Project Fusion encompassed the implementation of Microsoft 365, Microsoft Teams and the Avaya IX telephony solution. This project proved to be an invaluable initiative during the Covid-19 pandemic, as it enabled the whole employee base to transition to home working on the Group-wide infrastructure seamlessly when the lockdown commenced in 2020 and now facilitates a hybrid working environment for our employees.

We have continued to have success with our strategic platform – 'AdEPT Nebula' – which now underpins services for over 600 customers. At its core AdEPT Nebula is a highly resilient MPLS network (Nebula Network) and hosting capability centred on the Group's owned data centre in Orpington. AdEPT Nebula empowers the Group to provide clients with a seamless cloud hosting capability (Nebula Cloud), hybrid cloud platforms (Nebula Apps), unified communications (Nebula Voice) and secure managed services (Nebula Back Up and Nebula Security).

# 600

'AdEPT Nebula' customers



## Key performance indicators

### Revenue

(FY21: £57.9m)

**£68.1m**



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

### Gross profit margin

(FY21: 48.3%)

**47.6%**



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

### Underlying EBITDA margin

(FY21: 17.0%)

**17.4%**



Underlying EBITDA as a percentage of revenue.

### Underlying EBITDA

(FY21: £9.8m)

**£11.9m**



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

### Net senior debt

(FY21: £25.6m)

**£29.4m**



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

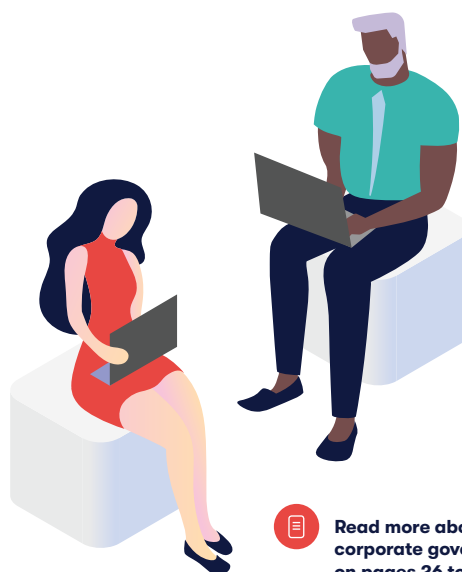
### Adjusted earnings per share

(FY21: 22.3p)

**27.5p**



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



Read more about our corporate governance on pages 26 to 36



# Principal risks and uncertainties

## Principal risks and uncertainties

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

Nature of risk and impact	Mitigation	Change	Link to strategy
<b>Catastrophic event risk</b>			
Catastrophic events, such as Covid-19, present a potential risk to the ability of the Group to continue to operate efficiently and maintain high service levels. This presents a risk to customer services and systems which therefore creates a risk of customer claims and loss for failure to meet contracted service levels.	<p>A business continuity plan is in place which is reviewed regularly and enhanced from the results of testing. The Group is increasingly moving to cloud-based systems, which are more readily available for a timely response to a catastrophic event. All employees are able to work remotely, and the Group's operational and administrative servers are located and managed such that damage from an outage is minimised.</p> <p>A testimony of the Group's ability to deal with a catastrophic event is the response to the Covid-19 pandemic which saw virtually all of the Group's workforce transition to remote working in the space of a couple of days.</p>	 <b>Risk increased</b>	
<b>Customer loss risk</b>			
We acknowledge that some of our customers may come under increased financial pressure as a result of trading disruption. This may result in increased credit risk for the Group and loss of revenue from customer business failures.	The impact of this is partially mitigated with no customer accounting for more than 10% of the Group revenue. The top ten customers account for approximately 28% of revenues. The customer base of the Company is also spread across a wide geographical area and across a wide range of business sectors. We continue to monitor customer churn, develop our customer offering and service delivery. To further manage this risk, we maintain regular contact with our customers to identify and respond to any risks as early as possible.	 <b>No change</b>	
<b>Cyber-attack on Company, customer or supplier systems</b>			
There is an ever-increasing threat of cyber-attacks on network infrastructure which places a risk on the security of underlying data being stored and disruption to the services being supplied. This presents a risk of a potential claim from a customer in relation to data loss but also increased revenue churn from failure to meet contracted service levels.	The Group has extensive experience in cyber security and continues to invest in training, systems and tools to protect the Company and its customers. Customer networks are securely segregated from those of the Company and systems are replicated/backed up in more than one location. AdEPT holds several security accreditations including ISO2 7001, Cyber Essentials and PCI DSS. The Company's security systems and processes are subject to extensive third-party external auditing. In addition, the Company has in place a cyber insurance protection.	 <b>No change</b>	

## Principal risks and uncertainties continued

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

The business review set out on pages 16 to 24 has been approved by the Board on 4 August 2022 and signed on its behalf by:



**John Swaite**  
Finance director

# Corporate governance

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## Board of directors



**Ian Fishwick**

**Chairman – non-executive director**

MBA, ACMA

**Skills and experience**

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



**Phil Race**

**Chief executive officer**

MBA, BEng

**Skills and experience**

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



**John Swaite**

**Finance director**

BA Hons, FCA

**Skills and experience**

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



**Andy Lovett**

**Chief operating officer**

**Skills and experience**

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



**Richard Bligh** ● ●

**Non-executive director**



**Craig Wilson** ● ●

**Non-executive director**

**Skills and experience**

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

**Skills and experience**

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

**Sector experience**



- Finance and investment 7
- Technology 5
- Governance 3
- Public sector 3

**Tenure**



- 1-4 years 4
- 4-9 years 0
- 10-14 years 1
- 15+ years 1

- 
- Committee Chairman
  - Audit committee member
  - Remuneration committee member

## Directors' report

For the year ended 31 March 2022

# The directors present their report and the financial statements for the year ended 31 March 2022

The following directors have served during the year:

- > Ian Fishwick
- > Roger Wilson (retired 31 March 2022 as announced in the 7 April 2022 trading update)
- > Richard Bligh
- > Craig Wilson
- > Phil Race
- > John Swaite
- > Andy Lovett

### Statement of directors' responsibilities

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

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

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

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

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

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

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

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

### Provision of information to auditor

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

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

### Going concern

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

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

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

### Employee involvement

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

The Group has in place an indemnity insurance policy for the benefit of the senior management and employees at a cost of £9,525 (FY21: £8,151). The increase in premium in the current year reflects a higher level of cover.

### Disabled employees

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

## Significant events

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

## Research and development

The Group has a software development team at Atomwide which is responsible for the ongoing enhancement of existing software applications and the development of new software and a technical team which is responsible for the enhancement and development of the AdEPT Nebula network. The costs incurred during the year in relation to these activities was £384,600 (FY21: £368,300), of which £169,671 was capitalised in relation to the Nimbus Sync and Webscreen X software developments with the balance of these costs being expensed as incurred and included within administrative expenses in the statement of comprehensive income. In addition, the Group incurred capital costs of £202,776 (FY21: £322,835) in relation to the development of the AdEPT Nebula network; these costs have been capitalised and are included within tangible assets.

Investment of £542,204 (FY21: £577,624) has been made over the last twelve months in Project Fusion, which includes the cost of third-party consultancy and some capitalisation of the internal development team's time spent dedicated to the project. The progress on the roll out of a Group-wide CRM system is underway with the system live in all Group operating sites by 1 April 2022. In addition, the Group has transitioned to a centralised finance platform which is hosted in the AdEPT Nebula network, with all business units. The Group is transitioning to a new centralised HR platform to provide a complete HR management system in a phased approach; by the year end phase 2 of the project had been completed.

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

## Streamlined Energy and Carbon Reporting (SECR)

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

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

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

kgCO <sub>2</sub> e	March 2022		March 2021	
	Transport	Electricity	Transport	Electricity
Scope 1	—	—	—	—
Scope 2	—	476,072	—	395,862
Scope 3	144,998	—	82,344	—
	144,998	476,072	82,344	395,862

The total electricity consumption value is the actual value of kWh energy units consumed at an average conversion factor of 0.35 kgCO<sub>2</sub>e per kWh. Transport is the total value of business mileage (in Company and personal vehicles) consumed at an average conversion factor of 2.9 kgCO<sub>2</sub>e per mile travelled.

The absolute increase in kgCO<sub>2</sub>e arises from the additional energy consumption from the premises overhead and headcount related transport costs arising from the acquisition of Datrrix, combined with the return to office premises for the other operating sites and increases to employee travel back to a more normal level following the easing of Covid-19 restrictions. The Group's intensity ratio, calculated as total energy value per employee, for the year ended 31 March 2022 was 1,837 kgCO<sub>2</sub>e (FY21: 1,513 kgCO<sub>2</sub>e).

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

## Dividends

No dividends were paid during the year.

## Financial risk management

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

## Auditor

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

On behalf of the Board



**Phil Race**  
Director  
4 August 2022

## Report of the remuneration committee

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

**Richard Bligh**  
Chairman of the  
remuneration committee



### Scope of the report

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

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

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

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

During the year the committee met on six occasions.

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

### Remuneration policy

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

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

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

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

### Element of remuneration policy and link to strategy policy and approach

#### Base salary

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

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

#### Benefits

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

#### Bonus

A cash bonus designed to incentivise specific short-term goals and objectives, both financial and non-financial. Goals and objectives are set for the executive director team as a whole with a significant weight being put on meeting and exceeding the annual budget in terms of revenue, EBITDA and net debt targets. Executive directors' on target bonuses are set at between 25% and 35% of base salary.

#### Share options

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

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

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

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



## Director remuneration

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

	Short-term employee benefits			Post-employment benefits	Total 2022 £	Total 2021 £
	Salary and fees paid or receivable £	Bonus and commission paid or receivable £	Other benefits £	Pension contributions £		
R Wilson	41,000	—	—	2,496	<b>43,496</b>	42,043
I Fishwick	130,000	—	8,433	13,821	<b>152,254</b>	173,140
R Bligh	40,000	—	—	1,246	<b>41,246</b>	41,013
C Wilson	41,000	—	—	1,283	<b>42,283</b>	42,043
P Race	260,642	7,500	—	10,000	<b>278,142</b>	271,975
A Lovett	200,731	—	3,245	1,625	<b>205,601</b>	169,531
J Swaite	196,041	1,750	9,381	1,622	<b>208,794</b>	196,874
<b>Total</b>	<b>909,414</b>	<b>9,250</b>	<b>21,059</b>	<b>32,093</b>	<b>971,816</b>	<b>931,619</b>

During the year retirement benefits were accruing to seven directors (FY21: seven) in respect of money purchase pension schemes. The value of the Group's contributions paid to a money purchase pension scheme in respect of the highest paid director amounted to £10,000 (FY21: £10,000).

The share option debit recognised during the year in respect of the directors was £61,682 (FY21: £67,154). The aggregate amount of gains made by directors on the exercise of share options was £Nil (FY21: £Nil). There were no directors (FY21: Nil) who exercised share options during the year.

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

	Option scheme	Options at 1 April 2020	Awarded in year	Options exercised	Options lapsed	Options at 31 March 2022	Option price	Date of grant
I Fishwick	EMI	129,440	—	—	—	<b>129,440</b>	222p	1 March 2016
J Swaite	EMI	64,720	—	—	—	<b>64,720</b>	222p	1 March 2016
R Wilson	EMI	29,660	—	—	—	<b>29,660</b>	222p	1 March 2016
I Fishwick	Unapproved	140,000	—	—	—	<b>140,000</b>	335p	2 August 2017
J Swaite	Unapproved	100,000	—	—	—	<b>100,000</b>	335p	2 August 2017
P Race	Unapproved	237,018	—	—	—	<b>237,018</b>	368p	1 January 2019
A Lovett	Unapproved	100,000	—	—	—	<b>100,000</b>	355p	26 September 2019
P Race	Unapproved	237,018	—	—	—	<b>237,018</b>	333p	1 January 2020
A Lovett	Unapproved	125,149	—	—	—	<b>125,149</b>	220p	1 January 2021
P Race	Unapproved	125,149	—	—	—	<b>125,149</b>	220p	1 January 2021

All options were issued at market value and have a three year vesting period. 800,838 of the outstanding options have vested and they are not subject to any performance conditions. The remaining options are not subject to any performance conditions and have not yet vested.



**Richard Bligh**  
Chairman of the remuneration committee  
4 August 2022

## Corporate governance statement

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

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

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

AdEPT was originally established as a fixed line telecoms provider but has diversified its product range to become one of the UK's leading providers of managed services for cloud, digital platforms, unified communications, and connectivity solutions. This transition has been largely through development of the organic sales focus combined with strategic acquisition of earnings-enhancing businesses. In quarter four of the period the Board reviewed the strategy and as a result concluded that the Group was ideally placed to capitalise on its market position and capabilities, and in turn focus on the organic growth opportunities now available, while using its strong cash generation to reduce debt.

The strategy, resulting from this review, is to build upon three pillars: pillar one – drive organic growth; pillar two – structure for success; and pillar three – reduce gearing, all with the express intent of delivering stakeholder value. Further details are given in the chief executive's report.

The Company is focused on maintaining a high proportion of recurring revenue and margin, and a low operating cost base with a high proportion of EBITDA converting to operating free cash flow. This high free cash flow is to be used to reduce debt combined with returns to shareholders via dividends when appropriate to do so.

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

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

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

#### 2. Understanding and meeting shareholders' needs and expectations

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

The AGM is the main forum for dialogue with retail shareholders and the Board. The Notice of Meeting is sent to shareholders at least

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

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

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

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

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

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

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

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

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

#### Employee involvement

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

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

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

Alongside this the AdEPT executive team has initiated an Employee Communication Forum, as a means of obtaining views and opinions from across the workforce.

#### Environmental commitment

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

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

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

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

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

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

#### Internal control and risk assessment

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

treasury, tax and dividend policy. Monthly results and variances from plans and forecasts are reported to the Board. The key features of the Group's system of internal control are:

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

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

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

#### Liquidity risk

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

#### Credit risk

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

#### Currency risk

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

#### Capital risk management

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

## Corporate governance statement continued

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

#### Capital risk management continued

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

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

#### Competitor risk

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

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

#### Acquisition integration execution risk

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

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

#### The Board

<i>Executive directors</i>	<i>Non-executive directors</i>
Phil Race	Ian Fishwick
John Swaite	Roger Wilson
Andy Lovett	Richard Bligh
	Craig Wilson

#### The Board

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

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

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

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

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

#### Directors' conflicts of interest

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

#### Board appointments

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

#### Meeting attendance

Bi-monthly Board meetings were held throughout the year ended 31 March 2022. Directors are provided with comprehensive background information on the strategy, sales and financial performance in advance of each meeting, and all directors are able to participate fully and on an informed basis in all Board decisions. Any specific actions arising during meetings agreed by the Board are minuted, followed up and reviewed at subsequent meetings. The business reports monthly on its headline performance against its agreed budget, and the Board reviews the monthly update on performance and any significant variances are reviewed at each meeting. Details of the attendance of individual members at meetings during the year are shown in the table below:

	Board meetings	Audit committee	Remuneration committee
Number of meetings in the year	4	1	6
I Fishwick	4	—	6
R Bligh	4	—	6
C Wilson	4	1	—
R Wilson	4	1	6
P Race	4	—	1*
J Swaite	4	1*	1*
A Lovett	4	—	—

\* By invitation.

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

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

### Independent advice

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

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

### Appointment, removal and re-election of directors

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

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

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

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

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

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

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

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

calibre required to maintain the Group's position in its marketplace. This is maintained through the use of bonus and share option schemes, as follows:

### Bonus

A cash bonus designed to incentivise specific short-term goals and objectives, both financial and non-financial. Goals and objectives are set for the executive director team as a whole with a significant weight being put on meeting and exceeding the annual budget in terms of revenue, EBITDA and cash/net debt targets. Executive directors' on target bonuses are set at between 30% and 35% of base salary.

### Share options

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

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

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

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

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

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

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

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

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

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

## Corporate governance statement continued

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

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

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

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

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

#### Remuneration committee

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

#### Members

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Richard Bligh (Chairman)

Ian Fishwick

Roger Wilson

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#### Audit committee

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

#### Members

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Craig Wilson (Chairman)

Roger Wilson

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

#### Nomination committee

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

#### Executive team

The executive team consists of Phil Race, John Swaite and Andy Lovett with input from the divisional directors and their teams. It is responsible for the formulation of the proposed strategic focus for submission to the Board, the day-to-day management of the Group's businesses and its overall trading, operational and financial performance in fulfilment of that strategy, as well as plans and budgets approved by the Board of directors. It also manages and oversees key risks, management development and corporate responsibility programmes.

The chief executive officer reports to the plc Board on issues, progress and recommendations for change. The controls applied by the executive team to financial and non-financial matters and the effectiveness of these controls are regularly reported to the Board.

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

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

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

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

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

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

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

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

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

# Financial statements

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# Independent auditor's report

To the shareholders of AdEPT Technology Group plc

## Opinion

We have audited the financial statements of AdEPT Technology Group plc (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 March 2022, which comprise:

- > the Group statement of comprehensive income for the year ended 31 March 2022;
- > the Group and parent Company statements of financial position as at 31 March 2022;
- > the Group and parent Company statements of changes in equity for the year then ended;
- > the Group and parent Company statements of cash flows for the year then ended; and
- > the notes to the financial statements, including significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and UK adopted International Accounting Standards, and as regards the parent Company, as applied in accordance with the provision of the Companies Act 2006.

In our opinion:

- > the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 March 2022 and of the Group's loss for the period then ended;
- > the Group financial statements have been properly prepared in accordance with UK adopted International Accounting Standards;
- > the parent Company financial statements have been properly prepared in accordance with UK adopted International Accounting Standards as applied in accordance with the provisions of the Companies Act 2006; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Basis for opinion

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

## Conclusions relating to going concern

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

- > reviewing the cash flow model provided by management and challenging the assumptions made;

- > reviewing management's forecasts which show continued growth in both revenue and profitability. Our assessment therefore considered whether this was realistic given rising inflation and the ongoing economic conditions caused by the pandemic on supply chains which were worsened by the war in Ukraine leading to supply issues and project delays;
- > considering the accuracy of past budgeting and trading history, as well as a review of the May management accounts compared to forecast; and
- > considering the cash position of the business along with current facilities available for drawdown.

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

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

## Overview of our audit approach

### Materiality

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

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £550,000 (FY21: £250,000), based on revenue and EBITDA for the business. The materiality was set using a guideline of 5% of adjusted EBITDA and 0.75% of revenue.

Overall Company materiality was set at £200,000 (FY21: £100,000) based on revenue, EBITDA and adjusted earnings for the business. The materiality was set using a guideline of 5% of adjusted EBITDA and 0.75% of revenue.

We use a different level of materiality ('performance materiality') to determine the extent of our testing for the audit of the financial statements. Performance materiality is set based on the audit materiality as adjusted for the judgements made as to the entity risk and our evaluation of the specific risk of each audit area having regard to the internal control environment. Our performance materiality was £385,000 for the Group and £140,000 for the Company.

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

We agreed with the audit committee to report to it all identified errors in excess of £10,000 (FY21: £25,000). Errors below that threshold would also be reported to it if, in our opinion as auditor, disclosure was required on qualitative grounds.



## Overview of the scope of our audit

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

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

### Key audit matters

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

Key audit matter	How the scope of our audit addressed the key audit matter
<p><b>Revenue recognition, as set out in Note 2 to the financial statements</b></p> <p>Fraud through manipulation of revenue recognition is presumed to be a significant audit risk in most cases and we saw no reason to rebut this presumption.</p>	<p>The accounting policies for each of the companies in respect of IFRS 15 (revenue) were considered in detail when the Group adopted IFRS 15. This year we checked there were no changes in policy or revenue streams.</p> <p>We also ensured that revenue is recognised in the correct accounting period and that there were no material cut off errors. We did this through testing a sample of pre and post-year-end transactions along with our audit work on deferred income where a sample of deferred income balances were tested to source documentation.</p> <p>We also audited the accounts disclosures and considered the requirements of accounting standards, including disclosing the impact of IFRS 15, had been met.</p> <p>We were informed by management that no identified instances of material fraud occurred during the year.</p>
<p><b>Intangible assets, as detailed in the accounting policy note (Note 2) and the intangible assets note (Note 14)</b></p> <p>The value of these is significant and assessing the value and amortisation rates used to amortise the intangible assets is complex and involves a degree of subjectivity. Although any impairment would not impact on EBITDA, impairment charges would impact upon the profit for the year and distributable reserves which are important for the payment of dividends.</p> <p>The impairment calculations are based upon discounted cash flows. The significant inputs into the model include the cash flows in the current period, the churn rate (used to assess future cash flows), and the discount rate applied.</p>	<p>We audited the model provided by management and challenged them on the assumptions used.</p> <p>Our procedures included:</p> <ul style="list-style-type: none"> <li>&gt; auditing the cash flows used to ensure that only those cash flows relevant to the intangible assets acquired had been included and ensuring the cash-generating units to which the intangible had been included were correct;</li> <li>&gt; ensuring that the period over which cash flows were assessed remained reasonable;</li> <li>&gt; ensuring that churn rates had been correctly calculated (based on historical rates of customer losses) and future churn rates applied were reasonable in light of our knowledge of the business;</li> <li>&gt; assessing whether the assumptions used to calculate the discount rate were reasonable and supportable; and</li> <li>&gt; sensitising managements key assumptions.</li> </ul>
<p><b>Acquisition accounting, as detailed in the accounting policy note (Note 2) and the business combinations note (Note 29)</b></p> <p>The value of the acquisition in Datrix during the year is significant to the Group, and there is a degree of subjectivity to the acquisition and fair value so it is considered a significant audit risk.</p>	<p>We obtained the share purchase agreement and reviewed the terms ensuring that the accounting for the acquisition was correct and that the disclosures made in the accounts were consistent with the agreement.</p> <p>We agreed the amounts paid to the agreement and bank account.</p> <p>We reviewed the calculation of the estimated deferred contingent consideration. We audited the estimate made by management and ensured that the basis was consistent with both the SPA and disclosures in the accounts.</p> <p>We reviewed the assets and liabilities acquired including the calculation of the acquired customer base and other fair value adjustments arising on acquisition.</p>

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

# Independent auditor's report continued

To the shareholders of AdEPT Technology Group plc

### Other information

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

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion based on the work undertaken in the course of our audit:

- > the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- > the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In light of the knowledge and understanding of the Group and the parent Company and their environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- > adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- > the parent Company financial statements are not in agreement with the accounting records and returns; or
- > certain disclosures of directors' remuneration specified by law are not made; or
- > we have not received all the information and explanations we require for our audit.

### Responsibilities of the directors for the financial statements

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- > examining supporting documents for all material balances, transactions and disclosures;
- > review of the Board meeting minutes;
- > enquiry of management and review and inspection of relevant correspondence with any legal firms;
- > evaluation of the selection and application of accounting policies related to subjective measurements and complex transactions;
- > detailed testing of a sample of sales made during the year and around the year and agreeing these through to invoices and dispatch records for hardware;
- > testing the appropriateness of a sample of significant journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; and
- > review of accounting estimates for biases.

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

A further description of our responsibilities is available on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

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

### Darren Rigden (Senior Statutory Auditor)

for and on behalf of  
**Crowe U.K. LLP**  
**Statutory Auditor**  
**40-46 High Street**  
**Maidstone**  
**Kent**  
**ME14 1JH, UK**  
 4 August 2022

## Consolidated statement of comprehensive income

For the year ended 31 March 2022

	Note	2022 £'000	2021 £'000
<b>Revenue</b>	5	<b>68,082</b>	57,851
Cost of sales		<b>(35,650)</b>	(30,211)
<b>Gross profit</b>		<b>32,432</b>	27,640
Other income	6	—	304
Administrative expenses		<b>(32,708)</b>	(26,347)
Operating (loss)/profit		<b>(276)</b>	1,597
<b>Total operating profit – analysed:</b>			
Underlying EBITDA		<b>11,892</b>	9,830
Share-based payments		<b>(62)</b>	(67)
Depreciation of tangible fixed assets		<b>(1,433)</b>	(1,532)
Amortisation of intangible fixed assets		<b>(7,246)</b>	(5,793)
Profit on sale of freehold property		—	133
Revaluation of deferred consideration		<b>(33)</b>	—
Acquisition fees		<b>(1,371)</b>	—
Restructuring costs		<b>(2,023)</b>	(974)
Total operating (loss)/profit		<b>(276)</b>	1,597
Finance costs	9	<b>(2,752)</b>	(2,102)
<b>Loss before income tax</b>		<b>(3,028)</b>	(505)
Corporation tax	11	<b>(194)</b>	(860)
Deferred tax	11	<b>(2,010)</b>	1,025
Income tax expense	11	<b>(2,204)</b>	165
<b>Loss for the year</b>		<b>(5,232)</b>	(340)
Other comprehensive income		—	—
<b>Total comprehensive income</b>		<b>(5,232)</b>	(340)
<b>Earnings per share</b>			
Basic earnings	27	<b>(20.90p)</b>	(1.36p)
Diluted earnings	27	<b>N/A</b>	N/A

All amounts relate to continuing operations. The notes on pages 49 to 74 form part of these financial statements.

# Consolidated statement of financial position

As at 31 March 2022

	Note	31 March 2022 £'000	31 March 2021 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	13	19,908	17,408
Intangible assets	14	43,619	36,895
Property, plant and equipment	16	1,802	2,209
Deferred tax asset	17	—	—
		<b>65,329</b>	56,512
<b>Current assets</b>			
Inventories	18	843	569
Contract assets	5	422	978
Trade and other receivables	19	21,109	12,406
Income tax		243	—
Cash and cash equivalents		3,714	13,166
		<b>26,331</b>	27,118
<b>Total assets</b>		<b>91,660</b>	83,631
<b>Current liabilities</b>			
Trade and other payables	20	25,535	10,884
Contract liabilities	5	2,657	2,244
Income tax		—	357
Short-term borrowings		59	81
		<b>28,251</b>	13,566
<b>Non-current liabilities</b>			
Deferred tax	17	10,810	6,700
Convertible loan instrument	21	6,728	6,524
Long-term borrowings	21	33,310	39,110
<b>Total liabilities</b>		<b>79,099</b>	65,900
<b>Net assets</b>		<b>12,561</b>	17,731
<b>Equity attributable to equity holders</b>			
Share capital	23	2,503	2,503
Share premium		4,378	4,378
Share option reserve		1,237	1,175
Capital redemption reserve		18	18
Retained earnings		4,425	9,657
<b>Total equity</b>		<b>12,561</b>	17,731

The financial statements were approved and authorised for issue by the Board on 4 August 2022 and signed on its behalf by:



**Phil Race**  
Director

The notes on pages 49 to 74 form part of these financial statements.

Registered number 4682431

# Company statement of financial position

As at 31 March 2022

	Note	31 March 2022 £'000	31 March 2021 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill	13	2,011	2,011
Intangible assets	14	10,803	12,591
Investments	15	44,501	32,276
Property, plant and equipment	16	615	874
		<b>57,930</b>	47,752
<b>Current assets</b>			
Inventories	18	62	111
Contract assets	5	422	978
Trade and other receivables	19	11,091	14,940
Income tax		311	—
Cash and cash equivalents		135	10,651
		<b>12,021</b>	26,681
<b>Total assets</b>		<b>69,951</b>	74,433
<b>Current liabilities</b>			
Trade and other payables	20	8,815	4,438
Contract liabilities	5	2,657	2,244
Income tax		—	297
		<b>11,472</b>	6,979
<b>Non-current liabilities</b>			
Other provisions and liabilities	17	563	172
Convertible loan instrument	21	6,728	6,524
Long-term borrowings	21	33,086	38,807
<b>Total liabilities</b>		<b>51,849</b>	52,482
<b>Net assets</b>		<b>18,102</b>	21,951
<b>Equity attributable to equity holders</b>			
Share capital	23	2,503	2,503
Share premium		4,378	4,378
Share option reserve		1,237	1,175
Capital redemption reserve		18	18
Retained earnings		9,966	13,877
<b>Total equity</b>		<b>18,102</b>	21,951

The loss for the financial year dealt with in the financial statements of the parent Company was £3,911,268 (FY21: loss of £1,428,638).

The financial statements were approved and authorised for issue by the Board on 4 August 2022 and signed on its behalf by:



**Phil Race**  
Director

The notes on pages 49 to 74 form part of these financial statements.

Registered number 4682431

# Consolidated statement of changes in equity

For the year ended 31 March 2022

	Attributable to equity holders					
	Share capital £'000	Share premium £'000	Share option reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
<b>Equity at 1 April 2020</b>	2,503	4,378	1,108	18	10,375	18,382
Prior year adjustment (Note 3)	—	—	—	—	(378)	(378)
<b>Adjusted equity at 1 April 2020</b>	2,503	4,378	1,108	18	9,997	18,004
Loss for the year	—	—	—	—	(340)	(340)
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	(340)	(340)
Share-based payments	—	—	67	—	—	67
<b>Equity at 1 April 2021</b>	2,503	4,378	1,175	18	9,657	17,731
Loss for the year	—	—	—	—	(5,232)	(5,232)
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	(5,232)	(5,232)
Share-based payments	—	—	62	—	—	62
<b>Equity at 31 March 2022</b>	<b>2,503</b>	<b>4,378</b>	<b>1,237</b>	<b>18</b>	<b>4,425</b>	<b>12,561</b>

The notes on pages 49 to 74 form part of these financial statements.

## Company statement of changes in equity

For the year ended 31 March 2022

	Attributable to equity holders					
	Share capital £'000	Share premium £'000	Share option reserve £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
<b>Equity at 1 April 2020</b>	2,503	4,378	1,108	18	15,683	23,690
Prior year adjustment (Note 3)	—	—	—	—	(378)	(378)
<b>Adjusted equity at 1 April 2020</b>	2,503	4,378	1,108	18	15,305	23,312
Loss for the year	—	—	—	—	(1,428)	(1,428)
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	(1,428)	(1,428)
Share-based payments	—	—	67	—	—	67
<b>Equity at 1 April 2021</b>	2,503	4,378	1,175	18	13,877	21,951
Loss for the year	—	—	—	—	(3,911)	(3,911)
Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	(3,911)	(3,911)
Share-based payments	—	—	62	—	—	62
<b>Equity at 31 March 2022</b>	<b>2,503</b>	<b>4,378</b>	<b>1,237</b>	<b>18</b>	<b>9,966</b>	<b>18,102</b>

The notes on pages 49 to 74 form part of these financial statements.



# Consolidated statement of cash flows

For the year ended 31 March 2022

	2022 £'000	2021 £'000
<b>Cash flows from operating activities</b>		
Loss before income tax	(3,028)	(505)
Depreciation and amortisation	8,680	7,325
Adjustment to deferred consideration	33	—
Profit on sale of fixed assets	—	(133)
Share-based payments	62	67
Net finance costs	2,752	2,102
<b>Operating cash flows before movements in working capital</b>	<b>8,499</b>	8,856
(Increase)/decrease in inventories	(272)	43
(Increase)/decrease in trade and other receivables	(2,856)	1,643
Increase/(decrease) in trade and other payables	3,737	(2,566)
Cash generated from operations	9,108	7,976
Income taxes paid	(1,024)	(598)
<b>Net cash from operating activities</b>	<b>8,084</b>	7,378
<b>Cash flows from investing activities</b>		
Interest paid	(1,897)	(1,603)
Acquisition of subsidiaries net of cash acquired	(8,206)	(1,798)
Purchase of intangible assets	(863)	(751)
Sale of property, plant and equipment	—	344
Purchase of property, plant and equipment	(386)	(627)
<b>Net cash used in investing activities</b>	<b>(11,352)</b>	(4,435)
<b>Cash flows from financing activities</b>		
New bank loans	500	38,490
Repayment of bank loans	(6,000)	(39,250)
Payments of lease liabilities	(684)	(866)
<b>Net cash used in financing activities</b>	<b>(6,184)</b>	(1,626)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(9,452)</b>	1,317
<b>Cash and cash equivalents at beginning of year</b>	<b>13,166</b>	11,849
<b>Cash and cash equivalents at end of year</b>	<b>3,714</b>	13,166
<b>Cash and cash equivalents</b>		
Cash at bank and in hand	3,714	13,166
<b>Cash and cash equivalents</b>	<b>3,714</b>	13,166

The notes on pages 49 to 74 form part of these financial statements.

## Company statement of cash flows

For the year ended 31 March 2022

	2022 £'000	2021 £'000
<b>Cash flows from operating activities</b>		
Loss before income tax	<b>(3,912)</b>	(1,536)
Depreciation and amortisation	<b>2,971</b>	2,358
Adjustment to deferred consideration	<b>33</b>	—
Share-based payments	<b>62</b>	67
Net finance costs	<b>2,698</b>	2,073
<b>Operating cash flows before movements in working capital</b>	<b>1,852</b>	2,962
Decrease in inventories	<b>49</b>	22
Decrease in trade and other receivables	<b>4,004</b>	5,587
Increase/(decrease) in trade and other payables	<b>88</b>	(839)
Cash generated from operations	<b>5,993</b>	7,732
Income taxes paid	<b>175</b>	112
<b>Net cash from operating activities</b>	<b>6,168</b>	7,844
<b>Cash flows from investing activities</b>		
Interest paid	<b>(1,845)</b>	(1,608)
Acquisition of subsidiaries net of cash acquired	<b>(8,206)</b>	(1,798)
Purchase of intangible assets	<b>(688)</b>	(607)
Purchase of property, plant and equipment	<b>(222)</b>	(367)
<b>Net cash used in investing activities</b>	<b>(10,961)</b>	(4,380)
<b>Cash flows from financing activities</b>		
New bank loans	<b>500</b>	39,936
Repayment of bank loans	<b>(6,000)</b>	(39,250)
Payments of lease liabilities	<b>(223)</b>	(118)
<b>Net cash (used in)/from financing activities</b>	<b>(5,723)</b>	568
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(10,516)</b>	4,032
<b>Cash and cash equivalents at beginning of year</b>	<b>10,651</b>	6,619
<b>Cash and cash equivalents at end of year</b>	<b>135</b>	10,651
<b>Cash and cash equivalents</b>		
Cash at bank and in hand	<b>135</b>	10,651
<b>Cash and cash equivalents</b>	<b>135</b>	10,651

The notes on pages 49 to 74 form part of these financial statements.

# Notes to the financial statements

For the year ended 31 March 2022

## 1. Nature of operations and general information

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

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

## 2. Accounting policies

### Basis of preparation of financial statements

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

Accounting standards require the directors to consider the appropriateness of the going concern basis when preparing the financial statements. The directors confirm that they consider that the going concern basis remains appropriate. The statement of financial position reports an excess of current liabilities above current assets which arises from efficient utilisation of working capital and treasury management to maximise operating cash flow and minimise interest costs, along with the short-term classification of the deferred consideration for the Datrix acquisition. The Group has adequate financing arrangements which can be utilised by the Group as required to fund any temporary working capital requirement and to meet the deferred consideration liability; thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. The Group's available banking facilities are described in Note 28 to the financial statements.

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

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

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

### Segmental reporting

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

### Revenue

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

## Notes to the financial statements continued

For the year ended 31 March 2022

### 2. Accounting policies continued

#### Revenue continued

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

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

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

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

#### Grant income

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

## 2. Accounting policies continued

### Goodwill

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

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

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

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

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

### Other intangible assets

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

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

### Investments

Shareholdings in subsidiaries are valued at cost less impairment.

### Assets carried at amortised cost

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

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

### Allowance for impairment of receivables

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

### Property, plant and equipment and depreciation

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

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

## Notes to the financial statements continued

For the year ended 31 March 2022

### 2. Accounting policies continued

#### Lease accounting

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

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

A lease liability is recognised at the commencement date and is measured at the present value of the remaining lease payments discounted using the Group's incremental borrowing rate at the date of initial application. The lease liability is subsequently increased for a constant periodic rate of interest on the remaining balance of the lease liability and reduced for lease payments. Interest on the lease liability is recognised in the income statement.

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

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

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

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

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

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

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

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

#### Inventories

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

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

#### Pensions

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

#### Income tax

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

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

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

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

## 2. Accounting policies continued

### Share-based payments

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

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

### Trade and other receivables

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

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

### Cash and cash equivalents

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

### Trade payables

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

### Dividends

Dividend distributions to the Company's shareholders are recognised in respect of interim dividends when payment has been made to shareholders and final dividends are recognised when approved by the members.

### Financial instruments

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

### Capital

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

### Borrowings and borrowing costs

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

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

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

## 3. Critical accounting estimates and judgements

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

Key sources of estimation and uncertainty are:

### Goodwill and intangible impairment

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

### Intangible valuation

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

## Notes to the financial statements continued

For the year ended 31 March 2022

### 3. Critical accounting estimates and judgements continued

#### Credit losses on bad debts

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

#### Identification of intangible assets

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

#### Prior year restatement

Following a detailed review of the bad debt provision, a historical error in the calculation was identified in prior periods. Under IAS 8, given that this is an error rather than a change to a judgement or estimate, an adjustment has been made to correct the reserves brought forward. The adjustment increases the provision for potential bad debts by £378,838 with a corresponding entry to the brought forward reserves at 1 April 2020, being the earliest period presented in these financial statements. There is no impact on either the income statement, the cash flow statement or the earnings per share in either the current or comparative period as a result of this correction.

### 4. Segmental information

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

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

£'000	Year ended 31 March 2022				Year ended 31 March 2021			
	Fixed line services	Managed services	Central costs	Total	Fixed line services	Managed services	Central costs	Total
Revenue	8,582	59,500	—	68,082	10,739	47,112	—	57,851
Gross profit	3,200	29,232	—	32,432	3,999	23,641	—	27,640
Gross margin %	37%	49%	—	48%	37%	50%	—	48%
Other income	—	—	—	—	57	247	—	304
Administrative expenses	(1,685)	(18,855)	—	(20,540)	(2,175)	(15,939)	—	(18,114)
<b>Underlying EBITDA</b>	<b>1,515</b>	<b>10,377</b>	<b>—</b>	<b>11,892</b>	<b>1,881</b>	<b>7,949</b>	<b>—</b>	<b>9,830</b>
<b>Underlying EBITDA %</b>	<b>18%</b>	<b>17%</b>	<b>—</b>	<b>18%</b>	<b>18%</b>	<b>17%</b>	<b>—</b>	<b>17%</b>
Amortisation	(1,588)	(5,658)	—	(7,246)	(1,741)	(4,052)	—	(5,793)
Depreciation	—	—	(1,433)	(1,433)	—	—	(1,532)	(1,532)
Adjustment to deferred consideration	—	—	(33)	(33)	—	—	—	—
Acquisition costs	—	—	(1,371)	(1,371)	—	—	—	—
Profit on sale	—	—	—	—	—	—	133	133
Restructuring costs	—	—	(2,023)	(2,023)	—	—	(974)	(974)
Share-based payments	—	—	(62)	(62)	—	—	(67)	(67)
<b>Operating (loss)/profit</b>	<b>(73)</b>	<b>4,719</b>	<b>(4,922)</b>	<b>(276)</b>	<b>140</b>	<b>3,897</b>	<b>(2,440)</b>	<b>1,597</b>
Finance costs	—	—	(2,752)	(2,752)	—	—	(2,102)	(2,102)
Income tax	—	—	(2,204)	(2,204)	—	—	165	165
<b>(Loss)/profit after tax</b>	<b>(73)</b>	<b>4,719</b>	<b>(9,878)</b>	<b>(5,232)</b>	<b>140</b>	<b>3,897</b>	<b>(4,377)</b>	<b>(340)</b>

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

Transactions with the largest customer of the Group are less than 10% of total turnover and do not require disclosure for either FY21 or FY22.



## 5. Revenue

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

	2022 £'000	2021 £'000
Sale of goods	17,969	14,703
Provision of services:		
– calls and line rental	8,582	10,739
– data networks	15,733	14,228
– support services	20,453	14,659
– cloud telephony and other services	5,345	3,522
	<b>68,082</b>	57,851
Timing of revenue recognition		
Products transferred at a point in time	17,969	14,703
Products and services transferred over time	50,113	43,148
	<b>68,082</b>	57,851

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

	2022 £'000	2021 £'000
Receivables, which are included in 'Trade and other receivables'	13,550	8,472
Contract assets	422	978
Contract liabilities	(2,657)	(2,244)

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

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

	2022 £'000	2021 £'000
Revenue deferred into future periods	(2,657)	(2,244)
Deferred revenue recognised in the period	1,744	2,470
Direct costs deferred into future periods	422	978
Deferred direct costs recognised in the period	854	839

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

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

## 6. Other income

	2022 £'000	2021 £'000
Coronavirus Job Retention Scheme claims	—	304

## Notes to the financial statements continued

For the year ended 31 March 2022

### 7. Operating profit

The operating profit is stated after charging:

	2022 £'000	2021 £'000
Amortisation of customer base, billing system and licence	7,246	5,793
Depreciation of tangible fixed assets:		
– owned by the Group	743	845
– right of use assets	690	687
Share option expense	62	67
Acquisition costs	1,371	—
Restructuring and non-recurring costs	2,023	974

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

### 8. Auditor's remuneration

	2022 £'000	2021 £'000
Fees payable to the Group's auditor for the audit of the Group's annual financial statements	58	46
Fees payable to the Group's auditor and its associates in respect of:		
– audit of subsidiaries	100	71
– other services relating to taxation	23	24

### 9. Finance costs

	2022 £'000	2021 £'000
On bank loans and overdrafts	1,872	1,608
Bank arrangement fees	415	435
IFRS 16 lease liability interest	50	59
Finance cost on contingent consideration	415	—
	2,752	2,102

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

### 10. Employee costs

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

	2022		2021	
	Group £'000	Company £'000	Group £'000	Company £'000
Wages and salaries	15,705	3,886	13,476	2,718
Social security costs	1,684	414	1,543	347
Share option expense	62	62	67	67
Other pension costs	423	92	316	62
	17,874	4,454	15,402	3,194

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

	2022		2021	
	Group Number	Company Number	Group Number	Company Number
Non-executive directors	4	4	4	4
Administrative staff	336	55	312	67
	340	59	316	71

## 10. Employee costs *continued*

### Key management personnel

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

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

## 11. Income tax expense

	2022 £'000	2021 £'000
<b>Current tax</b>		
UK corporation tax on profit for the year	461	860
Adjustments in respect of prior periods	(267)	—
<b>Total current tax</b>	<b>194</b>	860
<b>Deferred tax</b>		
Origination and reversal of temporary differences:		
– fixed assets and short-term temporary differences	526	(43)
– share options	—	(14)
– intangibles on business combinations	(1,502)	(963)
Effect of tax rate change on opening balance	2,817	—
Adjustments in respect of prior periods	169	(5)
<b>Total deferred tax (see Note 17)</b>	<b>2,010</b>	(1,025)
<b>Total income tax expense</b>	<b>2,204</b>	(165)

### Factors affecting tax charge for the year

The relationship between expected tax expense based on the effective tax rate of AdEPT at 19% (FY21: 19%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2022 £'000	2021 £'000
Profit before income tax	(3,028)	(505)
Tax rate	19%	19%
<b>Expected tax charge</b>	<b>(575)</b>	(96)
Expenses not deductible for tax purposes	348	1
Adjustments to tax charge in respect of prior periods	(98)	(25)
Depreciation/amortisation on non-qualifying assets	(298)	22
Difference due to deferred tax rate being higher than the standard tax rate	127	—
Movement on share option deferred tax assets taken to equity	22	—
Plant and machinery super-deduction	(30)	—
R&D enhanced tax deduction	(103)	(50)
RDEC credit taxed	(6)	(21)
Effect of tax rate change on deferred tax opening balance	2,817	—
Other	—	4
<b>Actual tax expense net</b>	<b>2,204</b>	(165)

Future changes to tax rates are anticipated in line with the UK Government announcement in the 2021 Budget of an increase in the tax rate to 25% from 1 April 2023. The change in the deferred tax provisioning rate from 19% to 25% has generated a non-cash income statement tax debit of £2.8m in relation to the opening deferred tax balance.

## 12. Dividends

On 6 July 2022 the directors proposed a final dividend, subject to shareholder approval at the 2022 annual general meeting, of 1.0p per ordinary share (FY21: £Nil). Total dividends proposed in respect of the year ended 31 March 2022 will absorb £250,299 of shareholders' funds in future periods. Total dividends paid in the year ended 31 March 2022 was £Nil (2021: £Nil).

## Notes to the financial statements continued

For the year ended 31 March 2022

### 13. Goodwill

Group	Total £'000
<b>Cost</b>	
At 1 April 2020	19,492
Additions	—
At 1 April 2021	19,492
Additions	2,500
<b>At 31 March 2022</b>	<b>21,992</b>
<b>Impairment</b>	
At 1 April 2020	2,084
Impairment charge	—
At 1 April 2021	2,084
Impairment charge	—
<b>At 31 March 2022</b>	<b>2,084</b>
<b>Net book value</b>	
<b>At 31 March 2022</b>	<b>19,908</b>
At 31 March 2021	17,408
<b>Company</b>	
<b>Cost</b>	
At 1 April 2020	—
Additions	2,011
At 1 April 2021	2,011
Additions	—
<b>At 31 March 2022</b>	<b>2,011</b>
<b>Impairment</b>	
At 1 April 2020	—
Impairment charge	—
At 1 April 2021	—
Impairment charge	—
<b>At 31 March 2022</b>	<b>—</b>
<b>Net book value</b>	
<b>At 31 March 2022</b>	<b>2,011</b>
At 31 March 2021	2,011

We performed an annual goodwill impairment review as at 31 March 2022.

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

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

### 13. Goodwill continued

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

	March 2022 £'000	March 2021 £'000
Centrix Limited	3,614	3,614
Comms Group UK Limited	2,672	2,672
CAT Communications Limited	248	248
Our IT Department Limited	4,683	4,683
Atomwide Limited	3,313	3,313
Shift F7 Limited	879	879
ETS Communications Limited	615	615
Advanced Computer Systems UK Limited	1,384	1,384
Datrix Limited	2,500	—

The net present value of the future cash flows for the CGUs is sensitive to the weighted average cost of capital. The rate used to discount the future cash flows is the Group's pre-tax weighted average cost of capital of 8.4%. An increase in the Group's weighted average cost of capital to above 19.1% would materially impair the carrying value of the Group's goodwill by more than £400,000. Further details of the sensitivity of the variables used in the impairment testing are included in Note 14.

### 14. Intangible fixed assets

#### Group

	Licence £'000	Computer software £'000	Customer base £'000	Software apps £'000	Website £'000	Total £'000
<b>Cost</b>						
At 1 April 2020	262	1,688	71,616	3,535	1,745	78,846
Additions	139	575	—	—	22	736
At 1 April 2021	401	2,263	71,616	3,535	1,767	79,582
Additions	121	546	13,118	169	16	13,970
<b>At 31 March 2022</b>	<b>522</b>	<b>2,809</b>	<b>84,734</b>	<b>3,704</b>	<b>1,783</b>	<b>93,552</b>
<b>Amortisation</b>						
At 1 April 2020	120	1,342	33,498	936	998	36,894
Charge for the year	82	13	4,957	351	390	5,793
At 1 April 2021	202	1,355	38,455	1,287	1,388	42,687
Charge for the year	107	124	6,270	350	395	7,246
<b>At 31 March 2022</b>	<b>309</b>	<b>1,479</b>	<b>44,725</b>	<b>1,637</b>	<b>1,783</b>	<b>49,933</b>
<b>Net book value</b>						
<b>At 31 March 2022</b>	<b>213</b>	<b>1,330</b>	<b>40,009</b>	<b>2,067</b>	<b>—</b>	<b>43,619</b>
At 31 March 2021	199	908	33,161	2,248	379	36,895

## Notes to the financial statements continued

For the year ended 31 March 2022

### 14. Intangible fixed assets continued

#### Group continued

Included within the Group's intangible assets is:

	Useful life	March 2022 £'000	March 2021 £'000
Centrix Limited – customer base	17 years	5,486	6,030
Comms Group UK Limited – customer base/website	17 years	2,803	3,174
Our IT Department Limited – customer base/website	17 years	1,386	1,823
CAT Communications Limited – customer base	10 years	589	699
Atomwide Limited – customer base	16 years	3,876	4,592
Atomwide Limited – software/apps	5 years	1,898	2,249
Shift F7 Limited – customer base	10 years	3,175	3,718
ETS Communications Limited – customer base	10 years	2,385	2,747
Advanced Computer Systems UK Limited – customer base	10 years	5,274	6,001
Datrix Limited – customer base	10 years	11,861	—
Other customer bases – AdEPT Technology Group plc trading business	10–16 years	3,853	5,591

#### Company

	Licence £'000	Computer software £'000	Customer base £'000	Total £'000
<b>Cost</b>				
At 1 April 2020	102	1,688	32,045	33,835
Transfer from subsidiary	4	—	6,960	6,964
Additions	30	577	—	607
At 1 April 2021	136	2,265	39,005	41,406
Additions	137	542	9	688
<b>At 31 March 2022</b>	<b>273</b>	<b>2,807</b>	<b>39,014</b>	<b>42,094</b>
<b>Amortisation</b>				
At 1 April 2020	45	1,342	25,688	27,075
Charge for the year	30	14	1,696	1,740
At 1 April 2021	75	1,356	27,384	28,815
Charge for the year	65	121	2,290	2,476
<b>At 31 March 2022</b>	<b>140</b>	<b>1,477</b>	<b>29,674</b>	<b>31,291</b>
<b>Net book value</b>				
<b>At 31 March 2022</b>	<b>133</b>	<b>1,330</b>	<b>9,340</b>	<b>10,803</b>
At 31 March 2021	61	909	11,621	12,591

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

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

#### Measuring the fair value of intangible assets on acquisition

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

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

## 14. Intangible fixed assets continued

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

#### Measuring the fair value of intangible assets on acquisition continued

Intangible assets are reviewed annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The net present value of cash flows for each cash-generating unit is reviewed against the carrying value at the balance sheet date. At the final reporting date of 31 March 2022 the net present value of future cash flows of certain cash-generating units was above the carrying value and therefore no impairment charge has been recorded (FY21: £Nil).

We tested our intangible assets, investments and goodwill for impairment as at 31 March 2022. The carrying value of the intangible assets and the key assumptions used in performing the annual impairment assessment and sensitivities are disclosed below:

	Book value of cash-generating unit £'000	Estimated value in use £'000
Centrix Limited and CAT Communications Limited	6,050	12,892
Comms Group UK Limited and ETS Communications Limited	5,211	7,456
Our IT Department Limited and Shift F7 Limited	4,659	6,189
Atomwide Limited and Advanced Computer Systems UK Limited	10,866	21,958
Datrix Limited	11,861	21,781

#### What discount rate have we used?

The rate used to discount the future cash flows is the Group's pre-tax weighted average cost of capital (WACC) of 8.4% (FY21: 8.9%). The directors have chosen to use WACC as it is a calculated figure using actual input variables where available and applying estimates for those which are not, such as the equity market premium. An increase in the Group's weighted average cost of capital to above 19.1% would materially impair the carrying value of the Group's intangible assets by more than £400,000.

#### What churn rate have we used?

The churn rate is calculated based on the rate of attrition of the revenue generated from customers as at the date of acquisition and is calculated by reference to the closing revenue as a percentage of the opening revenue in the latest twelve month period.

For the customer bases which have been fully integrated into the AdEPT Technology Group plc trading business in Tunbridge Wells, the churn rate of 6.3% per annum is based upon the actual historical churn rate of the revenue stream from the customer bases.

For Centrix, Comms Group, Our IT Department, CAT Communications, Atomwide, Shift F7, ETS Communications and ACS the net present value of the discounted future cash flows is based on the actual revenues of the acquired customer bases. The actual historical churn rates for the acquired customer bases vary between nil and 7.9% per annum. Where an acquired customer base has shown growth, a default churn assumption of 3% per annum has been applied.

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

#### What margin have we used?

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

#### What is the estimated useful life of customer bases?

The method used to estimate the useful life of each customer base to conduct the impairment review is the revenue churn rate. The average useful economic life of all the customer bases has been estimated at 13 years (FY21: 14 years) with a range of 10 to 17 years.

#### What sensitivities have we applied?

The calculations are sensitive to movements in the discount rate, margin or churn rate and may therefore result in an impairment charge to the income statement. The following movements would result in an impairment charge:

- > 5.7% increase to the discount rate percentage;
- > 3.1% increase to the churn rate; and
- > 4.5% decrease to the gross margin percentage.

## Notes to the financial statements continued

For the year ended 31 March 2022

### 15. Investments in subsidiaries

#### Company

	Company £'000	Total £'000
<b>Cost</b>		
At 1 April 2020	61,020	61,020
Additions	—	—
Disposal	—	—
At 1 April 2021	61,020	61,020
Additions	12,225	12,225
Disposal	—	—
<b>At 31 March 2022</b>	<b>73,245</b>	<b>73,245</b>
<b>Amounts written off</b>		
At 1 April 2020	10,031	10,031
Written off during the year	18,713	18,713
At 1 April 2021	28,744	28,744
Written off during the year	—	—
<b>At 31 March 2022</b>	<b>28,744</b>	<b>28,744</b>
<b>Net book value</b>		
<b>At 31 March 2022</b>	<b>44,501</b>	<b>44,501</b>
At 31 March 2021	32,276	32,276

We tested our investments for impairment as at 31 March 2022; details of the testing are included in Note 14.

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

### 16. Property, plant and equipment

#### Group

	Motor vehicles £'000	Right of use assets £'000	Short-term leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
<b>Cost</b>						
At 1 April 2020	357	1,989	295	603	1,886	5,130
Additions	78	514	4	25	599	1,220
Disposals	(183)	(439)	(238)	—	(164)	(1,024)
At 1 April 2021	252	2,064	61	628	2,321	5,326
Acquired with subsidiary	—	135	—	49	164	348
Additions	—	256	36	27	359	678
Disposals	—	(59)	—	—	(81)	(140)
<b>At 31 March 2022</b>	<b>252</b>	<b>2,396</b>	<b>97</b>	<b>704</b>	<b>2,763</b>	<b>6,212</b>
<b>Depreciation</b>						
At 1 April 2020	266	725	63	452	924	2,430
Charge for the year	44	758	15	98	590	1,505
Disposals	(182)	(434)	(39)	—	(163)	(818)
At 1 April 2021	128	1,049	39	550	1,351	3,117
Charge for the year	45	646	11	99	632	1,433
Disposals	—	(59)	—	—	(81)	(140)
<b>At 31 March 2022</b>	<b>173</b>	<b>1,636</b>	<b>50</b>	<b>649</b>	<b>1,902</b>	<b>4,410</b>
<b>Net book value</b>						
<b>At 31 March 2022</b>	<b>79</b>	<b>760</b>	<b>47</b>	<b>55</b>	<b>861</b>	<b>1,802</b>
At 31 March 2021	124	1,015	22	78	970	2,209



## 16. Property, plant and equipment continued

### Company

	Motor vehicles £'000	Right of use assets £'000	Short-term leasehold improvements £'000	Fixtures and fittings £'000	Office equipment £'000	Total £'000
<b>Cost</b>						
At 1 April 2020	105	731	7	226	1,094	2,163
Additions	—	—	—	23	344	367
Transfer from subsidiary	—	158	—	31	52	241
Disposals	(105)	(65)	—	—	—	(170)
At 1 April 2021	—	824	7	280	1,490	2,601
Additions	—	24	—	—	220	244
Disposals	—	—	—	—	—	—
<b>At 31 March 2022</b>	<b>—</b>	<b>848</b>	<b>7</b>	<b>280</b>	<b>1,710</b>	<b>2,845</b>
<b>Depreciation</b>						
At 1 April 2020	105	217	7	221	730	1,280
Charge for the year	—	263	—	38	316	617
Disposals	(105)	(65)	—	—	—	(170)
At 1 April 2021	—	415	7	259	1,046	1,727
Charge for the year	—	226	—	10	267	503
Disposals	—	—	—	—	—	—
<b>At 31 March 2022</b>	<b>—</b>	<b>641</b>	<b>7</b>	<b>269</b>	<b>1,313</b>	<b>2,230</b>
<b>Net book value</b>						
<b>At 31 March 2022</b>	<b>—</b>	<b>207</b>	<b>—</b>	<b>11</b>	<b>397</b>	<b>615</b>
At 31 March 2021	—	409	—	21	444	874

The right of use assets are made up as follows:

	2022		2021	
	Group £'000	Company £'000	Group £'000	Company £'000
Property	659	175	850	342
Motor vehicles	93	29	140	54
Other	8	3	25	13
	<b>760</b>	<b>207</b>	1,015	409

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

	2022		2021	
	Group £'000	Company £'000	Group £'000	Company £'000
Property	530	177	472	111
Motor vehicles	111	47	166	40
Other	9	2	120	112
	<b>650</b>	<b>226</b>	758	263

## Notes to the financial statements continued

For the year ended 31 March 2022

### 17. Deferred taxation

	2022		2021	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 April	<b>(6,700)</b>	<b>(172)</b>	(7,738)	(279)
Income statement credit/(charge)	<b>807</b>	<b>(387)</b>	1,025	89
Movement in deferred tax on share options taken to equity	<b>(4)</b>	<b>(4)</b>	4	4
Deferred tax transferred from Group company	—	—	—	(10)
Deferred tax asset acquired with subsidiary	<b>404</b>	—	—	—
Adjustments in respect of prior periods	—	—	9	24
Effect of tax rate change on opening balance	<b>(2,817)</b>	—	—	—
Deferred tax on business combination	<b>(2,500)</b>	—	—	—
<b>At 31 March</b>	<b>(10,810)</b>	<b>(563)</b>	(6,700)	(172)

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

	2022		2021	
	Group £'000	Company £'000	Group £'000	Company £'000
Accelerated capital allowances	<b>(540)</b>	<b>(444)</b>	(181)	(58)
Short-term temporary differences	<b>26</b>	<b>5</b>	5	—
Losses	<b>44</b>	—	—	—
Convertible loan note equity element	<b>(124)</b>	<b>(124)</b>	(128)	(128)
Deferred tax on business combinations	<b>(10,216)</b>	—	(6,410)	—
Share options	—	—	14	14
	<b>(10,810)</b>	<b>(563)</b>	(6,700)	(172)

### 18. Inventories

	2022		2021	
	Group £'000	Company £'000	Group £'000	Company £'000
Consumables	<b>843</b>	<b>62</b>	569	111

As at 31 March 2022, inventories of £19,826 (FY21: £25,765) were fully provided for. During the year £6,161,236 (FY21: £7,296,830) has been recognised as an expense in the statement of comprehensive income.

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

### 19. Trade and other receivables

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

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

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

## 19. Trade and other receivables continued

	2022		Restated 2021	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade receivables	13,493	2,664	8,102	3,414
Other receivables	104	4	—	—
Amounts owed by Group undertakings	—	4,810	—	9,200
Prepayments	4,939	1,517	3,692	2,268
Accrued income	2,573	2,096	612	58
	<b>21,109</b>	<b>11,091</b>	12,406	14,940

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

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

### Trade receivables and contract assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. As at 31 March 2022, trade receivables of £333,706 (FY21: £387,712) were fully provided for.

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

	Group £'000	Company £'000
At 1 April 2020	411	81
Receivables provided for during the year as uncollectable	245	245
Receivables collected during the year which were previously provided for	(153)	—
Receivables written off in the year which were previously provided for	(115)	(51)
Acquired through acquisition	—	25
At 1 April 2021	388	300
Receivables provided for during the year as uncollectable	60	—
Receivables collected during the year which were previously provided for	(176)	(136)
Receivables written off in the year which were previously provided for	—	—
Acquired through acquisition	62	—
<b>At 31 March 2022</b>	<b>334</b>	<b>164</b>

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

## Notes to the financial statements continued

For the year ended 31 March 2022

### 20. Trade and other payables

	2022		2021	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade payables	9,327	2,107	4,176	2,001
Other taxes and social security costs	2,321	699	1,998	741
Other payables	305	44	179	36
Lease liability	421	205	547	220
Accruals and deferred income	8,727	1,326	3,984	1,440
Contingent consideration	4,434	4,434	—	—
	<b>25,535</b>	<b>8,815</b>	10,884	4,438

The contingent consideration liability of £4,433,540 (FY21: £Nil) represents the year-end fair value of the contingent consideration liabilities arising on the acquisitions made during the year. The fair value of the contingent consideration liability was determined by applying the contingent consideration matrix as specified in the share purchase agreement. Further details are included in Note 29.

### 21. Long-term borrowings

	2022		2021	
	Group £'000	Company £'000	Group £'000	Company £'000
Between one and two years	—	—	—	—
Between two and five years	40,038	39,814	45,634	45,322
More than five years	—	—	—	—
	<b>40,038</b>	<b>39,814</b>	45,634	45,322

The bank loan of £33,066,676 is secured by a debenture incorporating a fixed and floating charge over the undertaking and all property and assets present and future, including goodwill, book debts, uncalled capital, buildings, fixtures and fixed plant and machinery.

Included in long-term borrowings is an amount of £6,728,784 which is the debt component of the convertible loan instrument from BGF. This loan instrument is subordinated and ranks behind the bank loan.

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

Included within bank loans are arrangement fees amounting to £433,323 (FY21: £661,871) which are being released over the term of the loan.

### 22. Lease liability

Included within long-term borrowings (Note 21) between two and five years is an amount of £242,689 (FY21: £521,468) which relates to the IFRS 16 lease liability.

	2022		2021	
	Group £'000	Company £'000	Group £'000	Company £'000
Within one year	405	206	547	220
Between two and five years	243	18	521	218
More than five years	—	—	—	—
	<b>648</b>	<b>224</b>	1,068	438

Total cash payments in respect of IFRS 16 lease agreements during the year were £683,881 (FY21: £866,442).

## 23. Share capital

	2022 £'000	2021 £'000
<b>Authorised</b>		
65,000,000 ordinary shares of 10p each	<b>6,500</b>	6,500
<b>Allotted, called up and fully paid</b>		
25,029,957 (FY21: 25,029,957) ordinary shares of 10p each	<b>2,503</b>	2,503

### Share options

At 31 March 2022, the following options and warrants over the shares of AdEPT were in issue:

	2022		2021	
	Number of shares under option	Weighted average exercise price	Number of shares under option	Weighted average exercise price
Outstanding at 1 April	<b>3,244,064</b>	<b>355p</b>	3,162,446	359p
Granted during the year	—	—	250,298	222p
Forfeited during the year	—	—	(168,680)	236p
<b>Outstanding at 31 March</b>	<b>3,244,064</b>	<b>355p</b>	3,244,064	355p

2,756,748 share options were available for exercise at 31 March 2022 (FY21: 2,335,910). The weighted average remaining contractual life of share options and warrants at 31 March 2022 was six years (FY21: seven years).

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

	Exercise price (p)	Expected option life (years)	31 March 2022 No. of options	31 March 2021 No. of options
1 March 2016	222	10	<b>223,820</b>	223,820
2 August 2017	335	10	<b>240,000</b>	240,000
2 August 2017	393	10	<b>1,855,910</b>	1,855,910
21 August 2018	353	10	<b>100,000</b>	100,000
1 January 2019	368	10	<b>237,018</b>	237,018
26 September 2019	355	10	<b>100,000</b>	100,000
1 January 2020	333	10	<b>237,018</b>	237,018
1 January 2021	220	10	<b>250,298</b>	250,298
			<b>3,244,064</b>	3,244,064

The closing price of the ordinary shares on 31 March 2022 was 166p and the range during the year was 134p.

## 24. Pension commitments

At 31 March 2022 there were no pension commitments (FY21: £Nil).

## Notes to the financial statements continued

For the year ended 31 March 2022

### 25. Related party transactions

There is no ultimate controlling party.

Transactions between the Company and its subsidiaries are as follows:

#### Provision of services from related parties

	31 March 2022 £'000	31 March 2021 £'000
Shift F7 Limited	62	67
Atomwide Limited	18	14
Comms Group Limited	15	3
Datrix Limited	3	—
Centrix Limited	—	1
	<b>98</b>	<b>85</b>

#### Provision of services to related parties

	31 March 2022 £'000	31 March 2021 £'000
Centrix Limited	—	82
Comms Group Limited	189	137
Atomwide Limited	149	105
Shift F7 Limited	179	143
	<b>517</b>	<b>467</b>

#### Amounts due to subsidiaries

	31 March 2022 £'000	31 March 2021 £'000
Datrix Limited	832	—
Atomwide Limited	1,834	—
	<b>2,666</b>	<b>—</b>

#### Amounts due from subsidiaries

	31 March 2022 £'000	31 March 2021 £'000
Comms Group Limited	1,512	1,921
Atomwide Limited	—	217
Shift F7 Limited	5,964	7,062
	<b>7,476</b>	<b>9,200</b>

Intra-group dividends of £Nil were paid to AdEPT Technology Group plc from the subsidiary companies during the year (FY21: £20,330,802). These dividends are included in the Company profit for the year but are eliminated upon consolidation.

### 26. Capital commitments

At 31 March 2022 there were capital commitments of £Nil (FY21: £Nil).

## 27. Earnings per share

Earnings per share is calculated on the basis of a loss of £5,232,160 (FY21: loss of £339,787) divided by the weighted average number of shares in issue for the year of 25,029,970 (FY21: 25,029,959). The diluted earnings per share is calculated on the treasury stock method and the assumption that the weighted average unapproved and EMI share options outstanding during the period are exercised. This would give rise to a total weighted average number of ordinary shares in issue for the period of 25,084,305 (FY21: 25,052,139).

Adjusted earnings per share is used to reflect the non-cash nature of certain items which are charged to the income statement and the non-trading items, such as acquisition costs, to give a better indicator of the underlying cash generation of the Group. Adjusted earnings per share is calculated by adding back amortisation of intangible assets, impairment of goodwill, the taxation deduction on purchased customer contracts, deferred tax credits on amortisation charges, share option charges, adjustment to deferred consideration acquisition fees and restructuring costs from retained earnings, giving £6,888,372 (FY21: £5,597,601). This is divided by the same weighted average number of shares as above.

	2022 £'000	2021 £'000
<b>Earnings for the purposes of basic and diluted earnings per share</b>		
Loss for the period attributable to equity holders	<b>(5,232)</b>	(340)
Add: amortisation	<b>7,246</b>	5,793
Less: taxation on amortisation of purchased customer contracts	<b>(117)</b>	(117)
Add/(less): deferred tax on amortisation charges	<b>1,298</b>	(963)
Add: share option charges	<b>62</b>	67
Less: adjustment to deferred consideration	<b>33</b>	—
Add: acquisition fees and restructuring costs	<b>3,394</b>	974
Add: interest unwind on loan note	<b>204</b>	184
Adjusted profit attributable to equity holders	<b>6,888</b>	5,598
<b>Number of shares</b>		
Weighted average number of shares used for earnings per share	<b>25,029,970</b>	25,029,957
Weighted average dilutive effect of share plans	<b>54,335</b>	22,180
Diluted weighted average number of shares	<b>25,084,305</b>	25,052,137
<b>Earnings per share</b>		
Basic earnings per share	<b>(20.90p)</b>	(1.36p)
Diluted earnings per share	<b>N/A</b>	N/A
<b>Adjusted earnings per share</b>		
Adjusted basic earnings per share	<b>27.52p</b>	22.36p
Adjusted diluted earnings per share	<b>27.46p</b>	22.34p

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

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

## Notes to the financial statements continued

For the year ended 31 March 2022

### 28. Financial instruments

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

	2022		2021	
	Group £'000	Company £'000	Group £'000	Company £'000
<b>Loans and receivables at amortised cost</b>				
Cash and cash equivalents	3,714	135	13,166	10,652
Loans and receivables	13,550	2,669	8,472	3,793
	<b>17,264</b>	<b>2,804</b>	21,638	14,445
<b>Financial liabilities at amortised cost</b>				
Liabilities at amortised cost	50,656	42,733	51,390	48,357
<b>Financial liabilities at fair value</b>				
Contingent consideration	4,434	4,434	—	—
	<b>55,090</b>	<b>47,167</b>	51,390	48,357
<b>Amounts due for settlement</b>				
Within twelve months	14,487	6,789	4,987	2,257
After twelve months	40,603	40,378	46,403	46,100
	<b>55,090</b>	<b>47,167</b>	51,390	48,357

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

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

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

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

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

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



## 28. Financial instruments continued

Below is a summary of liabilities arising from financing activities:

	Borrowings £'000	Convertible loan notes £'000	Leases £'000	Total £'000
At 1 April 2020	39,788	6,340	1,315	47,443
Cash flows – proceeds	(39,250)	—	—	(39,250)
Cash flows – repayments	38,499	—	(866)	37,633
Acquisitions – leases	—	—	514	514
Movement in accrued interests	(321)	184	158	21
At 1 April 2021	38,716	6,524	1,121	46,361
Cash flows – proceeds	500	—	—	500
Cash flows – repayments	(5,999)	—	(683)	(6,682)
Acquisitions – leases	157	—	256	413
Movement in accrued interests	(308)	204	(4)	(108)
<b>At 31 March 2022</b>	<b>33,066</b>	<b>6,728</b>	<b>690</b>	<b>40,484</b>

### Sensitivity analysis

At 31 March 2022 it was estimated that a movement of 1% in interest rates would impact the Group's profit before tax by approximately £0.3m.

### Interest rate risk

The Group's current interest rate policy is subject to ongoing review in line with the level of borrowings and potential interest risk exposure.

At 31 March 2022, £7,293,726 of the Group's borrowings are at a fixed rate of interest (FY21: £7,293,726).

### Credit risk

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

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at 31 March 2022 was £16,052,854 (FY21: £21,265,612).

### Loans and receivables

	2022		2021	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade receivables	13,493	2,664	8,102	3,414
Other receivables	56	4	—	—
Cash and cash equivalents	3,714	135	13,166	10,651
	<b>17,263</b>	<b>2,803</b>	21,268	14,065

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

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

## Notes to the financial statements continued

For the year ended 31 March 2022

### 28. Financial instruments continued

#### Loans and receivables continued

The Group's provision matrix is as follows:

Year ended 31 March 2022	Current £'000	<30 days £'000	31-60 days £'000	>60 days £'000	Total £'000
Expected credit loss rate	0%	1%	1%	27%	2%
Gross debtors	10,657	1,548	562	1,094	13,861
Expected credit loss	(22)	(17)	(3)	(292)	(334)
					13,527

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

#### Liquidity risk

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

#### Amortised cost

Year ended 31 March 2022	Within 1 year £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Borrowings	—	33,874	6,728	—
Trade and other payables	14,286	—	—	—
Future gross lease payments	524	243	—	—
	14,810	34,117	6,728	—

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

#### Currency risk

The Group's operations are handled entirely in sterling.

#### Capital risk management

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

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

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

## 29. Business combinations

### Contingent consideration obligations

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

	Advanced Computer Systems UK Limited £'000	Total £'000
At 1 April 2021	—	—
Additions	5,319	5,319
Discounting of deferred consideration	415	415
Settled in cash	(1,300)	(1,300)
<b>At 31 March 2022</b>	<b>4,434</b>	<b>4,434</b>

The earnout period for Datrix Limited ended on 31 March 2022 and the final amount of deferred consideration payable was paid on 1 July 2022.

### Acquisition of Datrix Limited

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

Initial consideration of £9.0m, on a debt-free, cash-free basis, was paid in cash. Pursuant to the terms of the share purchase agreement, the effective date of the acquisition is 1 April 2021. Further contingent deferred consideration of up to £7.0m may be payable in cash dependent upon the trading performance of Datrix in the twelve month period ended 31 March 2022. The contingent deferred consideration will be determined by reference to the gross margin of the acquired business and applying the contingent deferred consideration calculation as specified in the share purchase agreement. The final amount of deferred consideration payable of £4.3m was paid on 1 July 2022.

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

	Book cost £'000	Fair value £'000
Intangible assets	—	13,148
Property, plant and equipment	220	213
Inventories	5	—
Trade and other receivables	5,905	5,837
Cash and cash equivalents	(321)	(321)
Trade and other payables	(6,829)	(6,844)
Short-term borrowings	(249)	(249)
Income tax	37	37
Deferred tax	403	(2,097)
<b>Net assets</b>	<b>(829)</b>	<b>9,725</b>
Cash		7,791
Contingent cash consideration		4,434
Fair value total consideration		12,225
<b>Goodwill</b>		<b>2,500</b>

Datrix generated revenue and profit after tax of £12.3m and £1.5m respectively for the year ended 31 March 2022 and represents a twelve month contribution. Acquisition related and restructuring costs of £0.8m have been recognised as an expense in the statement of comprehensive income for the year ended 31 March 2022.

## Notes to the financial statements continued

For the year ended 31 March 2022

### 30. Subsidiaries

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

# Company information

## Directors

Ian Fishwick  
Roger Wilson (retired 31 March 2022)  
Richard Bligh  
Craig Wilson  
Phil Race  
John Swaite  
Andy Lovett

## Secretary

Dentons Secretaries Limited

## Company number

4682431

## Registered office

One Fleet Place  
London EC4M 7WS

## Contact details

T: 0344 5577 300  
E: [business.services@adept.co.uk](mailto:business.services@adept.co.uk)  
W: [www.adept.co.uk](http://www.adept.co.uk)

## Auditor

### Crowe U.K. LLP

Chartered accountants and registered auditor  
40–46 High Street  
Maidstone  
Kent ME14 1JH

## Bankers

### National Westminster Bank plc

135 Bishopsgate  
London EC2M 3UR

### Bank of Ireland

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

## Nominated adviser and broker

### N+1 Singer

1 Bartholomew Lane  
London EC2N 2AX

## Solicitors

### CrippsPG LLP

22 Mount Ephraim  
Tunbridge Wells  
Kent TN4 8AS

## Registrars

### Computershare Investor Services plc

PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 6ZY

## Glossary

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



AdEPT Technology plc's commitment to environmental issues is reflected in this Annual Report, which has been printed on Symbol Freelifa Satin, an FSC® certified material. This document was printed by L&S using its environmental print technology, which minimises the impact of printing on the environment, with 99% of dry waste diverted from landfill. Both the printer and the paper mill are registered to ISO 14001.



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**AdEPT Technology Group plc**

77 Mount Ephraim  
Tunbridge Wells  
Kent TN4 8BS

T: 0344 5577 300  
F: 0344 5577 301  
E: [business.services@adept.co.uk](mailto:business.services@adept.co.uk)

[www.adept.co.uk](http://www.adept.co.uk)