AdEPT Telecom plc

(“AdEPT” or the “Company”)

Interim results for the 6 months ended 30 September 2013

AdEPT, one of the UK’s leading independent providers of award-winning landline voice and data connectivity telecommunications services, VoIP and mobile networks, announces its results for the 6 months ended 30 September 2013.

Highlights

Financial

- Profit before tax increased by 19.6% to £1.03 million (2012: £0.86 million)
- Profit after tax increased by 30% to £0.68 million (2012: £0.52 million)
- Free cash flow increased by 8.3% to £1.70 million (2012: £1.57 million)
- Adjusted EPS increased by 14.2% to 7.47p (2012: 6.54p)
- Interim dividend doubled to 1.5p per share (2012: 0.75p)

- Gearing down to 38% (2012: 46%)
- Net debt, after £2.18m acquisition payments, reduced by £0.55 million in the last 12 months to £3.89 million (2012: £4.39 million)
- Interest costs reduced by 45% to £0.13 million (2012: £0.24 million)

- EBITDA increased by 6% to £2.09 million (2012: £1.97 million)
- EBITDA margin increased by 2.6% to 20.6% (2012: 18.0%)

Operational

- Total revenue fell by 7% to £10.2 million (2012: £10.9 million)
- Cloud-based contact centre solution and non-geographic revenue increased by 33.3% to £0.76 million (2012: £0.57 million)
- Data connectivity and network revenues increased by 6.0% to £1.41 million (2012: £1.33 million)
- Revenue from customers taking 3 or more products increased to 45% of total revenue (2012: 42%)

Business review

In the six month period ended 30 September 2013 the Company won a number of new customers within the public sector for which only a part contribution is included within these results. AdEPT has been successful in gaining new contracts with 6 county councils as a result of its status as sole recommended supplier to local government under the Eastern Shires Procurement Organisation framework for calls, lines, broadband, super-fast broadband (fibre) and SIP trunks.

Following the end of the interim period AdEPT has been awarded its third public sector telecom framework. The first was for university data connectivity, the second for local government telecoms and AdEPT has now been awarded a telephony services framework by Government Procurement Service, the purchasing arm of the Cabinet Office. This now gives the company access to central government bodies as well as local government.

Total revenue fell by 7% as a result of continued pressure on fixed line call volumes and retail price pressure following the regulatory price changes on mobile interconnect rates. However, absolute gross margins for fixed line services were slightly ahead at £3.15 million (September 2012: £3.12 million). This has been achieved through management of wholesale supply contracts combined with the impact of regulatory price changes on mobile interconnect rates and ISDN30 circuit rentals.

Cloud-based contact centre solution and non-geographic revenue has increased by 33% in the six months ended 30 September 2013 compared to the prior period. This has been achieved by new customers coming on stream combined with the continued development of network and cloud-based solutions for existing customers, such as Monarch Airlines and Cosmos Holidays.

Cross selling into the existing customer base continues to be successful, with revenue from customers taking three or more products increasing to 45% of total revenue (September 2012: 42%).

AdEPT is continuing to successfully make the transition from a traditional fixed line service provider to a complete communications integrator offering best of breed products from all major UK networks. Revenue from data connectivity and network solutions has increased to 14% of total revenue for the six months ended 30 September 2013 (September 2012: 12%). This growth incorporates a wider data connectivity service offering including 10Gb Optical Spectrum Services data connectivity solutions under the Ja.Net framework at a number of universities and colleges.

Financing

Free cash generation has improved during the six months to 30 September 2013 with the Company generating £1.70 million free cash flow (cash generated from operations net of interest) representing an increase of 8% (September 2012: £1.57 million). £1.92 million of available funds has been used to fund the initial consideration for the acquisition of certain trade and assets from Bluebell Telecom Limited on 1 August 2013. In addition, a further £0.26 million has been used to fund the deferred consideration in relation to the acquisition of certain trade and assets from Expanse (UK) Communications Limited which was completed on 1 May 2012.

Interest costs for the six month period to 30 September 2013 were £0.11 million lower, a fall of 45% from the comparative period. This improvement is a reflection of the reduced net borrowings and pro-active treasury management.

Net borrowings, after £2.18 million acquisition payments, have been reduced by £0.55 million during the last 12 months, which at 30 September 2013 were £3.89 million (September 2012: £4.39 million).

On 14 October 2013 the Company renewed and extended its bank facilities with Barclays through to October 2016. This provides the Company with additional facility headroom to enable the Board to continue with its growth strategy of selective acquisitions.

Gearing

Despite the £2.18 million acquisition payments made in the half year, net debt fell in the last 12 months by £0.55 million. This resulted in a reduction in gearing to 38% (September 2012: 46%).

Profit before and after tax

Profit before tax has increased by 20% to £1.03 million (September 2012: £0.86 million) arising from the improved operating profit combined with a 45% reduction in interest costs. Profit after tax has increased by 30% to £0.68 million (September 2012: £0.52 million).

Earnings per share

Adjusted (basic) earnings per share has increased 14% to 7.47p for the six months ended 30 September 2013 (2012: 6.54p) as a result of the £0.16 million improvement to profit before tax.

Dividends

The Directors have declared an interim dividend of 1.50p per Ordinary Share in respect of the results for the six months to 30 September 2013 which is an increase of 100% over the prior period. This will absorb approximately £0.32 million of shareholders' funds (September 2012: £0.16 million). It is proposed by the Directors that this dividend will be paid on 11 April 2014 to shareholders who are on the register of members on the record date of 21 March 2014. Subject to the financial results for the second half of the financial year, it is the intention of the Company to look to propose a final dividend with the March 2014 final results.

Free cash flow in the six months ended 30 September 2013 was £1.70 million, so there continues to be considerable scope for a progressive future dividend policy.

Outlook

The focus of the business continues to be on securing new customers through effective marketing of the various telecom frameworks and development of organic sales channels, maintaining underlying profitability and cash flow generation, which will be used to fund dividends and earnings-enhancing acquisitions.

Roger Wilson
Chairman
29 October 2013

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UNAUDITED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended **30 September 2013 £'000**	30 September 2012 £'000
REVENUE		**10,169**	10,930
Cost of sales		**(6,316)**	(7,173)
NET PROFIT		**3,853**	3,757
Administrative expenses		**(2,692)**	(2,658)
OPERATING PROFIT		**1,161**	1,099
Total operating profit – analysed:			
Operating profit before depreciation and amortisation		**2,091**	1,972
Share based payments		**(4)**	(4)
Depreciation of tangible fixed assets		**(16)**	(15)
Amortisation of intangible fixed assets		**(910)**	(854)
Total operating profit		**1,161**	1,099
Finance costs		**(130)**	(238)
Finance income		**-**	-
PROFIT BEFORE INCOME TAX		**1,030**	861
Income tax expense		**(350)**	(338)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**680**	523
Attributable to:			
Equity holders		**680**	523
Earnings per share			
Basic earnings per share (pence)	3	**3.20p**	2.49p
Diluted earnings per share (pence)	3	**2.85p**	2.15p
Adjusted earnings per share, after adding back amortisation			
Basic earnings per share (pence)	3	**7.47p**	6.54p
Diluted earnings per share (pence)	3	**6.66p**	5.72p

UNAUDITED STATEMENT OF FINANCIAL POSITION

	30 September 2013 £'000	30 September 2012 £'000	*31 March 2013 £'000*
ASSETS			
Non-current assets			
Intangible assets	**16,024**	15,432	*14,615*
Property, plant and equipment	**56**	32	*50*
Deferred income tax	**121**	131	*124*
	16,201	15,595	*14,789*
Current assets			
Inventories	**4**	8	*4*
Trade and other receivables	**2,416**	2,603	*2,138*
Cash and cash equivalents	**1,525**	1,425	*1,639*
	3,945	4,036	*3,781*
Total assets	**20,146**	19,631	*18,570*
LIABILITIES			
Current liabilities			
Trade and other payables	**3,506**	3,365	*3,238*
Income tax	**1,024**	693	*676*
Short term borrowings	**1,210**	1,331	*3,106*
	5,740	5,389	*7,020*
Non-current liabilities			
Long term borrowings	**4,207**	4,485	*1,803*
Provisions for liabilities and charges	**16**	138	*-*
Total liabilities	**9,963**	10,012	*8,823*
Net assets	**10,183**	9,619	*9,747*
SHAREHOLDERS' EQUITY			
Share capital	**2,128**	2,107	*2,107*
Retained earnings	**8,055**	7,512	*7,640*
Total equity	**10,183**	9,619	*9,747*

UNAUDITED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of parent				
	Share capital £'000	Share premium £'000	Share capital to be issued £'000	Retained earnings £'000	Total equity £'000
Equity at 1 April 2012	2,107	-	145	6,829	9,081
Profit for six months ended 30 September 2012	-	-	-	523	523
Deferred tax asset adjustment	-	-	-	11	11
Share based payments	-	-	4	-	4
Balance at 30 September 2012	**2,107**	**-**	**149**	**7,363**	**9,619**
Profit for six months ended 31 March 2013	-	-	-	461	461
Deferred tax asset adjustment	-	-	-	(19)	(19)
Share based payments	-	-	1	-	1
Dividend	-	-	-	(315)	(315)
Balance at 31 March 2013	**2,107**	**-**	**150**	**7,490**	**9,747**
Profit for six months ended 30 September 2013	-	-	-	680	680
Issue of new equity	21	50	-	-	71
Transfer of reserves	-	-	(70)	70	-
Share based payments	-	-	4	-	4
Dividend	-	-	-	(319)	(319)
Balance at 30 September 2013	**2,128**	**50**	**84**	**7,921**	**10,183**

UNAUDITED STATEMENT OF CASH FLOWS

	Six months ended		*Year ended*
	30 September	30 September	*31 March*
	2013	2012	*2013*
	£'000	£'000	*£'000*
Cash flows from operating activities			
Profit before income tax	**1,030**	862	*1,637*
Depreciation and amortisation	**926**	869	*1,936*
Share based payments	**4**	4	*5*
Gain on bargain purchase	**-**	-	*(215)*
Net finance costs	**130**	238	*369*
Decrease in inventories	**-**	6	*10*
(Increase)/decrease in trade and other receivables	**(319)**	252	*727*
(Decrease)/increase in trade and other payables	**64**	(458)	*(819)*
Cash generated from operations	**1,836**	1,773	*3,650*
Income taxes paid	**-**	-	*(342)*
Net cash from operating activities	**1,836**	1,773	*3,308*
Cash flows from investing activities			
Interest paid	**(136)**	(197)	*(338)*
Acquisition of trade and assets	**(2,175)**	(475)	*(626)*
Purchase of intangible assets	**(5)**	(7)	*(79)*
Purchase of property, plant and equipment	**(21)**	(8)	*(40)*
Net cash used in investing activities	**(2,337)**	(687)	*(1,083)*
Cash flows from financing activities			
Dividends paid	**(158)**	(105)	*(105)*
Issue of shares	**71**	-	*-*
Repayment of borrowings	**(625)**	(1,425)	*(2,350)*
Increase of bank loan	**1,100**	-	*-*
Net cash (used in)/from financing activities	**388**	(1,530)	*(2,455)*
Net increase/(decrease) in cash and cash equivalents	**(114)**	(444)	*(230)*
Cash and cash equivalents at beginning of period/year	**1,639**	1,869	*1,869*
Cash and cash equivalents at end of period/year	**1,525**	1,425	*1,639*
Cash at bank and in hand	**1,525**	1,425	*1,639*
Bank overdrafts	**-**	-	*-*
Cash and cash equivalents	**1,525**	1,425	*1,639*

ACCOUNTING POLICIES

1 Basis of preparation

The financial information set out in this interim report which has not been audited, does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. The Company's statutory financial statements for the year ended 31 March 2013, prepared under International Financial Reporting Standards, were approved by the board of directors on 2 July 2013 and have been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified, did not contain any emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

The interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting", as adopted by the EU. Comparatives for the year ended 31 March 2013 have been extracted from the audited statutory accounts.

2 Accounting policies

The same accounting policies, presentation and methods of computation are followed in this interim report as were applied in the preparation of the Company's annual financial statements for the year ended 31 March 2013.

3 Earnings per share

	Six months ended		*Year ended*
	30 September 2013	30 September 2012	*31 March 2013*
	£'000	£'000	*£'000*
Earnings for the purposes of basic and diluted earnings per share			
Profit/(loss) for the period attributable to equity holders of the parent	**680**	523	*668*
Amortisation	**910**	854	*1,907*
Gain on bargain purchase	**-**	-	*(215)*
Adjusted profit attributable to equity holders of the parent, adding back amortisation and non-recurring costs	**1,590**	1,377	*2,360*
Number of shares			
Weighted average number of shares used for earnings per share	**21,279,603**	21,067,443	*21,067,443*
Dilutive effect of share plans	**2,615,668**	3,037,976	*3,271,353*
Diluted weighted average number of shares used to calculate fully diluted earnings per share	**23,895,271**	24,105,419	*24,338,796*
Earnings per share			
Basic earnings per share (pence)	**3.20p**	2.49p	*3.17p*
Fully diluted earnings per share (pence)	**2.85p**	2.17p	*2.74p*
Adjusted earnings per share, after adding back amortisation and non-recurring costs			
Adjusted basic earnings per share (pence)	**7.47p**	6.54p	*11.20p*
Adjusted fully diluted earnings per share (pence)	**6.66p**	5.72p	*9.70p*

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue.

Adjusted earnings per share is calculated by dividing the profit attributable to equity holders of the Company (after adding back amortisation) by the weighted average number of ordinary shares in issue.

Fully diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares by existing share options, assuming dilution through conversion of all existing options.

4 Segmental information

The chief operating decision maker has been identified as the Board. The Board reviews the Company's internal reporting in order to assess performance and allocate resources. The operating segments are fixed line services and next generation services, which incorporates cloud-based contact centre solutions, data connectivity, mobile and VoIP services, these are reported in a manner consistent with the internal reporting to the Board. The Board assesses the performance of the operating segments based on revenue, gross profit and EBITDA.

	Unaudited 6 months ended 30 September 2013				Unaudited (restated) 6 months ended 30 September 2012			
	Fixed line services	**Next generation services**	**Central costs**	**Total**	Fixed line services	Next generation services	Central costs	Total
Revenue	**7,813**	**2,355**	**-**	**10,169**	8,765	2,164	-	10,930
Gross profit	**3,152**	**701**	**-**	**3,853**	3,124	633	-	3,757
Gross margin %	**40.3%**	**29.7%**	**-**	**37.9%**	35.6%	29.3%	-	34.4%
EBITDA	**1,724**	**367**	**-**	**2,091**	1,670	301	-	1,972
EBITDA %	**22.1%**	**15.6%**	**-**	**20.6%**	19.1%	13.9%	-	18.0%
Amortisation	**(910)**	**-**	**-**	**(910)**	(854)	-	-	(854)
Depreciation	**-**	**-**	**(16)**	**(16)**	-	-	(15)	(15)
Share-based payments	**-**	**-**	**(4)**	**(4)**	-	-	(4)	(4)
Operating profit/(loss)	**814**	**367**	**(20)**	**1,161**	816	301	(19)	1,099
Finance costs			**(130)**	**(130)**			(238)	(238)
Income tax			**(350)**	**(350)**			(338)	(338)
Profit after tax	**814**	**367**	**(500)**	**680**	816	301	(594)	523

	Audited Year ended 31 March 2013			
	Fixed line services	*Next generation services*	*Central costs*	*Total*
Revenue	*16,773*	*4,250*	*-*	*21,023*
Gross profit	*6,018*	*1,244*	*-*	*7,261*
Gross margin %	*35.9%*	*29.3%*	*-*	*34.5%*
EBITDA	*3,102*	*630*	*-*	*3,732*
EBITDA %	*18.5%*	*14.8%*	*-*	*17.8%*
Amortisation	*(1,907)*	*-*	*-*	*(1,907)*
Depreciation	*-*	*-*	*(29)*	*(29)*
Gain on bargain purchase	*215*	*-*		*215*
Share-based payments	*-*	*-*	*(5)*	*(5)*
Operating profit/(loss)	*1,410*	*630*	*(34)*	*2,006*
Finance costs	*-*	*-*	*(369)*	*(369)*
Income tax	*(563)*	*(252)*	*162*	*(653)*
Profit after tax	*847*	*378*	*(241)*	*984*

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 Company comprise less than 10% of total turnover and do not require disclosure for either 2012 or 2013.

5 Share options

As at 30 September 2013 the following options over the shares of AdEPT were in issue:

	6 months ended 30 September 2013		6 months ended 30 September 2012		*Year ended 31 March 2013*	
	Number of shares under option	**Weighted average exercise price**	Number of shares under option	Weighted average exercise price	*Number of shares under option*	*Weighted average exercise price*
Outstanding at start of period	**3,271,353**	**42p**	3,218,090	42p	*3,218,090*	*42p*
Granted during the period	**-**	**-**	-	-	*224,371*	*52p*
Forfeited during the period	**(443,525)**	**134p**	(180,114)	42p	*(171,108)*	*42p*
Exercised during the period	**(212,160)**	**33p**	-	-	-	-
Outstanding at end of period	**2,615,668**	**28p**	3,037,976	42p	*3,271,353*	*42p*

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

	30 September 2013	30 September 2012	*31 March 2013*
Risk free interest rate	**1.95-4.13%**	1.95–4.13%	*1.95–4.13%*
Expected volatility	**3-83%**	3-43%	*3-83%*
Expected option life (years)	**1.0-5.7**	1.0–5.7	*1.0–5.7*
Expected dividend yield	**2.0%**	1.0%	*1.0%*
Weighted average share price	**42p**	42p	*42p*
Weighted average exercise price	**44p**	44p	*44p*
Weighted average fair value of options granted	**5p**	5p	*5p*

The expected average volatility was determined by reviewing the last 65 historical fluctuations in the share price prior to the grant date of each share instrument. An expected take up of 100% has been applied to each share instrument. Expected dividend yield is estimated at 2.0% which is based upon the actual dividend yield for the period ended 30 September 2013. It does not bear any relation to the future dividend policy of AdEPT Telecom plc.

The mid-market price of the ordinary shares on 30 September 2013 was 126p and the range during the period was 105p.

The share option expense recognised during the period in the statement of comprehensive income was £4,494 (September 2012: £3,787).

6 Business combinations

On 1 August 2013 the Company acquired certain trading assets from Bluebell Telecom Limited, a supplier of fixed line calls, line rental and data connectivity products to small and medium-sized businesses. Initial consideration of £1.9 million has been paid in cash by the Company with the balance of consideration being deferred until September 2014. Total consideration is estimated to be £2.4 million, this amount is contingent and is dependent upon the gross margin and churn performance of the customer contracts acquired during the year ending 31 August 2014. Earnout/contingent consideration is capped at £1.5 million. Acquisition related costs of £25,036 have been recognised as an expense in the statement of comprehensive income for the period ended 30 September 2013. Bluebell Telecom Limited contributed revenue and profit of £0.3 million and £0.08 million respectively in the statement of comprehensive income for the period ended 30 September 2013. A fair value of £2.3 million in relation to the customer contracts for the acquired business has been recognised as intangible asset additions in the period ended 30 September 2013. No other assets or liabilities were acquired.