CloudCoCo Group plc

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

Final results for the year ended 30 September 2019

CloudCoCo Group plc (AIM: CLCO.L), formerly Adept4 plc ("Adept4"), the AIM quoted provider of IT as a Service is pleased to announce final results for the year ended 30 September 2019 ("FY19"). These results reflect the performance of the legacy Adept 4 business only over what was a well-documented challenging period.

FY19 Summary

- Revenue in the year of £7.3 million (FY18: £10.2 million) and gross profit £3.7 million (FY18: £5.7million), reflecting the reduced emphasis on new business generation after the Board's strategic review;
- Trading overheads[2] fell by 23% to £4.0 million (FY18: £5.1 million), due to reduced cost base required by as a result of the Board's decision to focus on existing customer base;
- Resultant Trading Group EBITDA[1] loss of £0.2 million (FY18: profit £0.6 million); and
- Reported loss after tax of £5.2 million (FY18: £3.8 million), stated after a significant non-cash impairment charge of £3.0m against goodwill and other intangible assets.

Post Year End

- Completion of acquisition of CloudCoCo Limited on 21 October 2019, bringing a strong and experienced sales and business development team to the Group;
- The acquisition was satisfied by the issue of 218,160,568 ordinary shares of 1 pence each in the share capital of the Company, representing a total value of £7.2 million on completion;
- Appointment of Andy Mills, former Chairman of CloudCoCo Limited as Chief Executive Officer of the Company;
- Refinancing of the Group's debt, reducing loan note debt from £5.0 million to £3.5 million and extension of a new £0.5 million working capital facility;
- Rebrand and change of the Company's name to CloudCoCo Group plc on 29 November 2019;
- New business already being won and value of sales opportunities growing evidencing strong sales pedigree of CloudCoCo Limited team.

Simon Duckworth, Chairman of CloudCoCo Group plc, commented:

"The past couple of years have clearly been extremely challenging for the business. However, with the acquisition of CloudCoCo we believe we now have the right platform and the right team to re-invigorate the business and return the Group to growth. We are focused on four key objectives: increasing sales, reducing customer churn, reducing costs and returning to a net cash generation position. There are significant opportunities to improve performance by increasing customer satisfaction through improved customer service, combining CloudCoCo's proven and experienced salesforce with our existing operations. This will enable more sales to the existing customer base as well as driving new customer sales, and this is already being evidenced by new business wins and a growing sales pipeline. We can now look forward with renewed confidence."

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The information communicated in this announcement contains inside information for the purposes of Article 7 of Regulation 596/2014.

[1] earnings before net finance costs, tax, depreciation, amortisation, plc costs, separately identifiable items and share-based payments.

[2] administrative expenses less plc costs.

Chairman's statement

The last few months have seen significant change for CloudCoCo Group plc (formerly Adept4 plc) ("Adept4" or the "Company", and together with its subsidiaries the "Group") as we begin our journey of returning the Group to growth, profitability and delivering improved shareholder value.

Following the acquisition of CloudCoCo Limited on 21 October 2019, the Company's name was changed to CloudCoCo Group plc ("CloudCoCo Group") on 29 November 2019. The results contained within this report reflect trading for the year ended 30 September 2019 ("FY19") and as such relate to the period prior to the recent changes within the business. The Company is therefore referred to under its former name of Adept4 in the context of last year's performance.

As the challenges of FY19 have been well-documented in previous shareholder reports and detailed commentary is provided elsewhere, I have instead focused on the steps taken by the Board to move the Group forward in a positive way.

Overview and strategy

As previously reported, the Group has been challenged in the recent past by the general level of economic uncertainty in the market coupled with the investments made in a new sales team during the previous financial years not delivering the results the Board had expected. Continued delays in new sales in FY19 led to the Group experiencing monthly Trading Group EBITDA[1] and cash losses. As a result, and in order to protect the cash reserves of the Group whilst the Board considered the strategic options available to the Company, the decision was taken to focus on the Group's existing customer base with less emphasis on new business acquisition. Whilst this led to reduced revenue and gross profit, it requires a significantly lower operating cost base and therefore a cost reduction programme was implemented which completed in March 2019.

The performance of the Group was further affected by the loss, in April 2019, of a customer contract which had generated £0.7 million of revenue in the year ended 30 September 2018. The combined effect of these changes meant that during the year, the Group returned to modest levels of monthly Trading Group EBITDA profit generation and reduced levels of monthly net cash outflows (after plc costs and debt service costs).

The Company explored several strategic options and the Board concluded that the acquisition of CloudCoCo Limited ("CloudCoCo") (the "Acquisition") represented the best opportunity to return to growth and generate long-term value for all stakeholders.

CloudCoCo was established in September 2017 and started trading in April 2018. It was formed by the former sales directors of Redcentric plc (a UK managed service provider) and offers a variety of cloud computing services, IT hardware, managed IT services, voice and connectivity solutions via its partner ecosystem, aiming to provide its customers with a simplified approach to IT services. Though only recently established, CloudCoCo has a very strong and experienced sales and business development team which had already shown its ability to win new business using its agile sales methodology.

The Acquisition completed on 21 October 2019 and was facilitated by the issue of 218,160,568 ordinary shares of 1 penny each in the share capital of the Company, representing a total value of £7.2 million on completion. At the same time Andy Mills, Chairman of CloudCoCo, joined the board of Adept4 as Chief Executive Officer.

We are pleased with the progress Andy and the senior management teams of both businesses have made so far. Some details of the progress to date are given below and we look forward to updating the market further as the team continue to make progress.

Financing

In 2016, the Company issued unsecured loan notes with a value of £5.0 million to BGF Investments L.P. ("BGF"). These loan notes were repayable between 2021 and 2023 and carried a coupon of 8% per annum, payable quarterly. In addition, BGF held 50 million options in the Company at an exercise price of 6 pence per share.

On completion of the Acquisition, £1.5 million of the loan notes were waived and cancelled by BGF, reducing the Company's liability to £3.5 million. MXC Guernsey Limited, a wholly owned subsidiary of MXC Capital Limited ("MXC"), who currently hold 15.2% of the shares in the Company, purchased the remaining £3.5 million loan notes from BGF and restructured their terms. The loan notes now carry a coupon of 12% per annum which is rolled up, compounded annually and payable only at the end of the term. The term of the loan notes has been extended to October 2024 with no repayment due until that date unless the Company chooses to repay early. At the same time, MXC extended a £0.5 million, 2 year, working capital facility to the Company with interest charged at a rate of 12% per annum on amounts drawn down.

As part of the refinancing package, MXC also cancelled the warrants it held over 5% of the then issued and to be issued share capital of Adept4 and BGF's options were repriced to 0.35 pence. BGF exercised all of its options in October 2019 (and sold the resulting shares issued) and, as MXC no longer holds warrants in the Company, the only obligations over the Company's shares are in respect of outstanding staff share options. As part of the Acquisition, the Board agreed to put in place a management incentive scheme over an amount equal to up to 15% of the Company's post-Acquisition share capital to motivate and retain certain key staff. It is envisaged that this scheme will be implemented during the current financial year.

People

Having the right management team in place is key to the success of our business. The Acquisition brought a strong team which have been able to complement and enhance our existing management team. Andy Mills, former Chairman of CloudCoCo, has joined the Board of Adept4 as Chief Executive Officer, focussing on driving the growth of the enlarged Group. Mark Halpin (founder and former Chief Executive Officer of CloudCoCo) is leading the Group's business development activities.

The Company has recently announced a further key appointment, with Mike Lacey taking on the role of full time Chief Financial Officer ("CFO"), a role previously performed on an interim, part-time basis by Jill Collighan, CFO of MXC. Jill will continue on the Board as a non-executive director.

Chairman's statement (continued)

We previously announced Tom Black's intention to step down from the Board as a non-executive director once a suitable replacement has been found. The search for a replacement for Tom is well underway and he will therefore stand down as a non-executive director at this year's Annual General Meeting. I would like to place on record my thanks to Tom for all of his work over the past 7 years and especially during the recent difficult times.

Given the enormous change which has taken place within Adept4 in the past year, I would, once again, like to take this opportunity to thank our dedicated staff. There have been many examples of our people simply continuing to work very hard to produce great outcomes for our customers despite the significant challenges we have faced, and I would like to assure them of the Board's appreciation.

FY19 results

As explained above, the challenges of the past few years have been well-documented and significant change has already been effected in the Company in the first few months of the current financial year. The Acquisition was completed 3 weeks after the end of FY19, with the new management team therefore only joining after the year end. As stated above, these results therefore reflect the performance of the legacy Adept4 business only and for that reason, to avoid any confusion, the Company is referred to under its former name of Adept4 in the context of last year.

As a result of the Board's decision to focus on existing customers rather than the generation of new sales, together with the loss of the customer announced in April 2019, revenue for FY19 decreased to £7.3 million (2018: £10.2 million) with gross profits of £3.7 million (2018: £5.7 million).

Trading overheads fell by 23% to £4.0 million (2018: £5.1 million), reflecting the cost reduction programme undertaken during the year. The resultant Trading Group EBITDA for the year was a loss of £0.2 million (2018: profit of £0.6 million).

After all costs and income, including, inter alia, restructuring costs and an impairment charge of £3.0 million (2018: £2.6 million) in respect of the Group's intangible assets in its legacy businesses (see Note 8), the operating loss for the year was £5.0 million (2018: loss of £3.4 million) with a retained loss for the year after tax of £5.2 million (2018: loss of £3.8 million).

Post-year end progress

Significant work has been undertaken since the completion of the Acquisition. The rebrand of the Group to CloudCoCo and the change of the Company's name to CloudCoCo Group plc were completed on 29 November 2019 at which point the Group's new website was launched. The staff from both companies are integrating well, leading to a more-settled team. Steady progress has been made with improving customer service which in turn is leading to improved relationships with customers and is opening up new opportunities within the base.

The strong sales pedigree of the CloudCoCo team is already being proven as the number, and value, of sales opportunities grow. The team has already had success securing wins with six new customers, including one of the UK's largest automotive dealers, competing against large traditional IT services companies, leveraging our security solutions and vendor partnerships.

The entire team is focussed on the four key objectives of the business for the new financial year. These are:

1. Increasing sales;
2. Reducing customer churn;
3. Reducing costs whilst ensuring the business can deliver high levels of service; and
4. Returning to net cash generation.

Whilst seemingly simple objectives, it is important that the business returns to basics to ensure the underpinning fundamentals are right in order to drive improved performance. All staff are focused on the delivery of these objectives and the benefits are already being seen. Performance against these objectives will be detailed in subsequent reports on a continuing basis. The Group has achieved management's forecasts for the first quarter of the new financial year and work continues to strengthen its propositions in key growth areas of security and hybrid cloud computing.

Outlook

The past couple of years have clearly been extremely challenging for the business. However, with the acquisition of CloudCoCo we believe we now have the right platform and the right team to re-invigorate the business. There are significant opportunities to improve performance by increasing customer satisfaction through improved customer service, which will enable more sales to the existing customer base as well as driving new customer sales. In addition, by harnessing CloudCoCo's proven and experienced salesforce with our existing operations, we believe that there is a clearly defined opportunity to return the Group to growth whilst benefitting from the headroom the refinancing has provided us. We look forward with renewed confidence.

Simon Duckworth

Non-Executive Chairman

14 February 2020

[1]earnings before net finance costs, tax, depreciation, amortisation, plc costs, separately identifiable items and share-based payments

Business overview

What we do
First and foremost, CloudCoCo Group is a people-led business. With a skilled team of Microsoft, cloud, telephony, hardware, cyber security, support and connectivity experts we unlock business optimisation and transformation, team-working, cost savings, streamlined workflows and innovative solutions to business problems for clients of all sizes.

The Group's knowledge, gained through employees with multiple years of industry experience, helps our customers create a competitive edge, by providing IT solutions that underpin and support our customers' business activities. We have a burning passion to delight people with every aspect of our service and provide the alternative to the archaic managed IT services models. We also champion putting the power back into the hands of customers, offering easy-to-use self-service options and knowledge and skills transfer.

At CloudCoCo Group we seek to be highly responsive and provide customers with modern and innovative solutions to achieve their objectives, achieved through collaborative partnerships with IT solution and service providers, distributors and vendors. Our 24/7 UK response team, together with our strategic consulting and professional services team, provides exactly what businesses need from IT right now and into the future.

The revenue generated by CloudCoCo Group typically comes from three core areas of our business: contracted recurring managed services, professional services and the sale of associated hardware and other products.

As many of the Enterprise-class technologies which underpin our product suite can be provided "as a service", we provide our clients with exactly what is required to support their needs in accordance with business demands, billed on a monthly basis, based on what is consumed.

Our market
The CloudCoCo Group customer base spans all aspects of the UK market and the requirements for each can be quite different. We typically see businesses more inclined to look for a single organisation to provide as many services as possible across IT, telephony and connectivity providing them with a "one stop shop" approach. As we move towards the medium and large enterprise clients, we typically see these look to a more specialist provider for different aspects of the services they require. These customers will generally start with a specific service from CloudCoCo Group which addresses a particular business need and will then engage in additional solution discussions once the initial service is being successfully delivered. With the depth and breadth of our technology offering, together with our specialist teams and our flexible service options, we are ideally placed to grow our existing enterprise accounts whilst continuing to service and support our overall base.

In addition to its private sector customer base, the Group has a number of public sector clients and we have experienced an increase in requests to transact business through recognised government procurement frameworks.

Our technology
As part of our drive to engage quickly and delight our customers, we have continued the development of our technical skills, accreditations, competencies and our engagement with key vendor partners across our key strategic managed service sectors.

We utilise industry leading technology products and services from a number of vendor partners, including Microsoft, Mitel and Fortinet in delivering our managed service offering.

This year we have been awarded the Microsoft "Gold Cloud Platform" competency, which validates our continuously evolving tech intensity in cloud technologies, identity management, systems management, virtualisation, storage and networking. We have also secured "Silver Data Platform" partner status which demonstrates our competencies in collecting and managing diverse data types and versatile database platforms. As a business we have also retained two further Microsoft silver competencies in Application Development and Cloud Solutions.

Telephony services continue to drive strong opportunities for the Group, in both the traditional telecoms market – where we sell, install and support systems from Mitel, a market leading voice technology company – and in new technologies, such as integrated solutions from Microsoft based on their Teams unified communication and collaboration platform. We increasingly see customers looking to introduce Microsoft Teams into their business as the basis for modernised team working. We have added further functionality to our offering, with the introduction of a contact centre product called Anywhere365. This software application, which works directly with Microsoft Teams, provides additional multichannel communication functionality (telephone, text, e-mail, social media and web chat). With the Group's capability across the telephony market, we are ideally placed to continue to sell to and support clients requiring traditional infrastructure and provide a migration strategy for those that want to move to the new collaboration platforms.

CloudCoCo Group continues to see significant interest across its security portfolio, including the innovative Paranoid EPR (Endpoint Protection & Response) solution from US based company Nyotron. This interest has led to introductions into large enterprise organisations and businesses that are currently at varying stages of the sales cycle. The Group continue to have exclusivity within the UK for Paranoid, whilst also making sales in mainland Europe over recent months. The Paranoid solution's approach to post execution damage protection provides CloudCoCo Group with clear differentiators and offers a unique selling point against alternative solutions available.

Business overview (continued)

Additionally, in the cyber security market, we have built on our strong relationship with Fortinet to sell security and threat detection solutions. Given our post year sales success, we are due to become a Fortinet Gold partner and have already executed on some of our healthy growing pipeline in this area.

The need to interrogate data from multiple applications, information stores and bring this all together to provide analytical intelligence, collaboration and real-time reporting is driving new conversations in our customer base, especially with the ability to use tools such as PowerBI and PowerApps, and this is expected to provide the Group with new revenue streams. We have a team of in-house developers and, additionally, we have agreed a partnership with a "nearshore" development provider to supplement our own software development capabilities in a cost efficient and scalable manner to allow us to maximise revenue opportunities.

Summary and outlook

As detailed above, we have made progress against our key objectives during the year, but this was tempered by certain challenges faced by the Group. Going forward, following the acquisition of CloudCoCo Limited and our debt refinancing, we look forward with renewed confidence. The priorities are to maintain our strong relationships with existing customers, and to re-energise new sales generation through a strengthened sales team.

Financial review

Revenue and gross margin
As detailed in the Chairman's statement, following the decision to focus on existing customers rather than new sales generation, Group revenue for the year to 30 September 2019 was below that generated in the previous financial year, at £7.3 million (FY18: £10.2 million). This produced a gross profit of £3.7 million (FY18: £5.7 million) representing a gross margin of 51.4% (FY18: 56.0%). The reduction in margin predominantly relates to the recurring services segment, as explained below.

The analysis of revenue and gross profit from each of our operating segments of recurring services, product sales and professional services is shown in Note 3 and is detailed below.

Recurring services
Revenues from recurring services were £5.2 million (FY18: £7.1 million), generating a gross profit of £2.9 million (FY18: £4.2 million) and a gross margin of 56% (FY18: 60%). We continue to see a reduction in the gross profit from recurring services due to the migration of certain services from our infrastructure to that of a third party (such as Microsoft), in line with our asset-light strategy. Whilst initially resulting in some margin reduction, this strategy reduces risk and cost of ownership for us and allows us to provide customers with best-of-breed solutions with the ability to sell a wider range of services to the customer. Our revenue in this sector was further affected by the cancellation of a contract by a major customer who generated £0.7 million of revenue in FY18, as announced on 8 April 2019. We continue to dispute the validity of the cancellation of this contract and are currently seeking legal redress.

The proportion of our total revenue derived from recurring services continued to be high at 71% (FY18: 70%).

Product sales
Consistent with our strategy of focussing on sales with existing customers, revenues from product sales were lower than those in FY18 at £1.4 million (FY17: £2.0 million) generating a gross profit of £0.3 million (FY18: £0.4 million) and gross margin of 20% (FY18: 22%).

Professional services
Revenues from professional services were £0.7 million (FY18: £1.1 million) generating a gross profit of £0.6 million (FY18: £1.0 million) as permanent employee costs are included in overheads. Following our cost reduction programme certain projects are now outsourced using third party contractors resulting in a fall in margin to 79% (FY18: 94%).

Operating performance, costs and EBITDA
Aside from revenue, gross profit and cash balances, one of our main financial key performance indicators is our Trading Group EBITDA – our operational trading performance before plc costs.

Excluding plc costs of £0.4 million (FY18: £0.5 million) and following the successful implementation of our cost reduction programme, our trading overheads during the year fell by 23% to £4.0 million (FY18: £5.1 million), of which staff costs comprised 84% (FY18: 88%). As a result of the cost reduction programme, during the year the Group returned to modest levels of monthly Trading Group EBITDA profit, however, the total Trading Group EBITDA for the year was a loss of £0.2 million as a result of an increase in certain provisions following a year-end review (FY18: £0.6 million profit).

Separately identifiable items
During the year we incurred certain costs which were not directly related to the generation of revenue and trading profits. Given their size and nature, they have been classified as separately identifiable items within the Consolidated Income Statement. These items totalled £3.2 million of which £3.0 million relates to the impairment of goodwill and other intangible assets on previous acquisitions and £0.2 million relates to integration and reorganisation costs.

Net finance expenses
During the year the Group incurred net finance costs of £0.6 million (FY18: £0.6 million). £0.4 million of this was a cash cost in relation to the interest on the BGF loan notes and £0.2 million related to the release to the income statement of the fair value adjustments in respect of these loan notes.

Loss for the period
The Group incurred non-cash costs including total amortisation and depreciation charges of £1.0 million (FY18: £1.0 million) and a share-based payments charge of £0.1 million (2018: £0.1 million). After accounting for a deferred tax credit of £0.4 million (2018: £0.2 million) the reported loss for the year after tax was £5.2 million (FY18: £3.8 million).

Statement of Financial Position and cash
Cash balances at 30 September 2019 were £0.3 million (FY18: £1.4 million) whilst net debt was £4.0 million (FY18: £2.7 million). Net debt comprises cash balances of £0.3 million less the fair value of the BGF loan notes of £4.3 million.

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

- cash used in operating activities of £0.6 million (after the payment of separately identifiable costs of £0.2 million and plc costs of £0.4 million);
- £0.1 million settlement of Chess dispute paid in October 2018; and
- financing interest payments of £0.4 million.

At 30 September 2019, following the impairment charge in respect of its intangible assets, the Group had negative net assets of £1.1 million (FY18: net assets of £4.0 million).

Post-period end, in October 2019, significant refinancing took place as part of the Acquisition. Further details are given in the Chairman's statement and in Note 13. As a result of this refinancing, together with the Acquisition, the Group has now returned to a positive net asset position.

Consolidated income statement

for the year ended 30 September 2019

	Note	**2019 £'000**	2018 £'000
Continuing operations			
Revenue	3	**7,257**	10,185
Cost of sales		**(3,530)**	(4,480)
Gross profit	3	**3,727**	5,705
Administrative expenses		**(4,383)**	(5,598)
Amortisation of intangible assets	8	**(907)**	(907)
Depreciation	9	**(100)**	(136)
Separately identifiable costs	4	**(3,255)**	(2,390)
Share-based payments		**(71)**	(48)
Operating loss		**(4,989)**	(3,374)
Interest receivable	5	**3**	7
Interest payable	5	**(602)**	(609)
Net finance expense		**(599)**	(602)
Loss before taxation		**(5,588)**	(3,976)
Taxation		**438**	169
Loss and total comprehensive loss for the year attributable to owners of the parent		**(5,150)**	(3,807)
Loss per share			
Basic and fully diluted	7	**(2.27)p**	(1.68)p

	Note	**2019 £'000**	2018 £'000
Non-statutory measure: Trading Group EBITDA[1]			
Operating loss		**(4,989)**	(3,374)
Plc costs		**421**	482
Amortisation of intangible assets	8	**907**	907
Depreciation	9	**100**	136
Separately identifiable costs	4	**3,255**	2,390
Share-based payments		**71**	48
Trading Group EBITDA[1]		**(235)**	589

[1] earnings before net finance costs, tax, depreciation, amortisation, plc costs, separately identifiable items and share-based payments

Consolidated statement of financial position

as at 30 September 2019

	Note	**30 September 2019 £'000**	30 September 2018 £'000
Non-current assets			
Intangible assets	8	**4,394**	8,282
Property, plant and equipment	9	**62**	146
Total non-current assets		**4,456**	8,428
Current assets			
Inventories		**32**	26
Trade and other receivables	10	**1,489**	2,900
Cash and cash equivalents		**311**	1,427
Total current assets		**1,832**	4,353
Total assets		**6,288**	12,781
Current liabilities			
Short-term borrowings		**(32)**	(32)
Trade and other payables		**(876)**	(1,102)
Other taxes and social security costs		**(302)**	(377)
Accruals and deferred income		**(1,093)**	(1,937)
Total current liabilities	11	**(2,303)**	(3,448)
Non-current liabilities			
Long-term borrowings	11	**(4,286)**	(4,117)
Deferred tax liability		**(810)**	(1,248)
Total non-current liabilities		**(5,096)**	(5,365)
Total liabilities		**(7,399)**	(8,813)
Net (liabilities) / assets		**(1,111)**	3,968
Equity			
Share capital		**2,271**	2,271
Share premium account		**11,337**	11,337
Capital redemption reserve		**6,489**	6,489
Merger reserve		**1,997**	1,997
Other reserve		**1,720**	1,649
Retained earnings		**(24,925)**	(19,775)
Total equity		**(1,111)**	3,968

Consolidated statement of changes in equity
for the year ended 30 September 2019

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2017	2,271	11,337	6,489	1,997	1,601	(15,968)	7,727
Loss and total comprehensive loss for the period	—	—	—	—	—	(3,807)	(3,807)
Transactions with owners							
Share-based payments	—	—	—	—	48	—	48
Total transactions with owners	—	—	—	—	48	—	48
Total movements	—	—	—	—	48	(3,807)	(3,759)
Equity at 30 September 2018	**2,271**	**11,337**	**6,489**	**1,997**	**1,649**	**(19,775)**	**3,968**

	Share capital £'000	Share premium £'000	Capital redemption reserve £'000	Merger reserve £'000	Other reserve £'000	Retained earnings £'000	Total £'000
At 1 October 2018	2,271	11,337	6,489	1,997	1,649	(19,775)	3,968
Loss and total comprehensive loss for the period	—	—	—	—	—	(5,150)	(5,150)
Transactions with owners							
Share-based payments	—	—	—	—	71	—	71
Total transactions with owners	—	—	—	—	71	—	71
Total movements	—	—	—	—	71	(5,150)	(5,079)
Equity at 30 September 2019	**2,271**	**11,337**	**6,489**	**1,997**	**1,720**	**(24,925)**	**(1,111)**

Consolidated statement of cash flows

for the year ended 30 September 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Loss before taxation	**(5,588)**	(3,976)
Adjustments for:		
Depreciation	**100**	136
Amortisation	**907**	907
Share-based payments	**71**	48
Net finance expense	**599**	602
Settlement of warranty claim	**600**	(1,578)
Impairment of goodwill	**3,021**	2,644
Decrease in trade and other receivables	**811**	73
(Increase)/decrease in inventories	**(6)**	40
(Decrease)/increase in trade payables, accruals and deferred income	**(1,045)**	195
Net cash used in operating activities	**(530)**	(909)
Cash flows from taxation	—	—
Cash flows from investing activities		
Purchase of property, plant and equipment	**(16)**	(70)
Purchase of intangible assets	**(40)**	—
Payment of deferred consideration	**—**	(8)
Interest received	**3**	7
Net cash used in investing activities	**(53)**	(71)
Cash flows from financing activities		
Finance lease income received	—	56
Payment of finance lease liabilities	**(30)**	(44)
Interest paid	**(403)**	(410)
Net cash used in financing activities	**(433)**	(398)
Cash flows from discontinued operations		
Settlement of dispute with Chess ICT Limited	**(100)**	(100)
Net cash used in discontinued operations	**(100)**	(100)
Net decrease in cash	**(1,116)**	(1,478)
Cash at bank and in hand at beginning of period	**1,427**	2,905
Cash at bank and in hand at end of period	**311**	1,427
Comprising:		
Cash at bank and in hand	**311**	1,427

Notes to the consolidated financial statements

1. General information
CloudCoCo Group plc (formerly Adept4 plc) is a public limited company incorporated in England and Wales under the Companies Act 2006. The Board of Directors approved this preliminary announcement on 14 February 2019. Whilst the financial information included in the preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS") as endorsed by the European Union, this announcement does not itself contain sufficient information to comply with all the disclosure requirements of IFRS and does not constitute statutory accounts of the Company for the years ended 30 September 2019 and 2018.

The financial information for the period ended 30 September 2018 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The statutory accounts for the year ended 30 September 2019 will be delivered to the Registrar of Companies following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

2. Basis of preparation
The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards (IFRSs) as adopted by the EU and in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

The financial statements have been prepared on a going concern basis. Taking into account post balance sheet financial restructuring and after reviewing the forecast sales growth, budgets and cash projections, including sensitivity analysis on the key assumptions, for the next twelve months and beyond, the Directors have reasonable expectations that the Group and the Company have adequate resources to continue operations for the foreseeable future. Furthermore, taking into account the assurance of ongoing support from a significant shareholder, which the Directors reasonably believe has sufficient resources to provide such support, the Directors continue to adopt the going concern basis in preparing these financial statements.

The same accounting policies and methods of computation are followed as in the latest published audited financial statements for the year ended 30 September 2018, which are available on the Group's website, except as described below:

New standards and interpretations of existing standards that have been adopted by the Group for the first time
During the year ended 30 September 2019, the Group adopted the following new financial reporting standards for the first time:

- IFRS 15 Revenue from Contracts with Customers (for accounting periods commencing on/after 1 January 2018); and
- IFRS 9 Financial Instruments (for accounting periods commencing on/after 1 January 2018).

The key areas of difference between the IFRS 15 policies and those used in prior financial years are as follows:

Previously, we did not capitalise the cost of obtaining a contract unless it involved significant set-up costs. Under IFRS 15 there is a broader definition of what can be capitalised as cost to obtain a contract. Where these costs have been identified, we have matched the amortisation of capitalised costs to obtain a contract to the revenue recognised in the period but have used the practical expedient of IFRS 15 not to capitalise costs that relate to revenue that will be recognised within twelve months.

As a practical expedient and as allowed under the standard we have applied the five-step approach under IFRS 15 to portfolios of contracts which have similar characteristics and where we expect that the financial statements would not reasonably differ materially had the standard been applied to the individual contracts within the portfolio.

IFRS 15 has not had a material impact on the timing and amount of revenue and costs being recognised in the current or previous financial year and there was no impact on cash flows with cash collections remaining in line with contractual terms.

IFRS 9 has not had a material impact on the results of the Group.

Following the adoption of these new accounting standards, the Group's revenue recognition and financial assets accounting policies have been revised as follows:

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

The Group enters into sales transactions involving a range of the Group's products and services; for example, for the delivery of hardware, software, support services, managed services and professional services. At the inception of each contract the Group assesses the goods or services that have been promised to the customer. Goods or services can be classified as either i) distinct or ii) substantially the same, having the same pattern of transfer to the customer as part of a series. Using this analysis, the Company identifies the separately identifiable performance obligations over the term of the contract.

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

Sale of goods (hardware and software)
Sale of goods is recognised when the Group has transferred the significant risks and rewards of ownership to the buyer, generally when the customer has taken undisputed delivery of the goods. Revenue from the sale of software with no significant service obligation is recognised on delivery.

Rendering of services

The Group generates revenues from managed services, support services, maintenance, resale of telecommunications ("Recurring Services") and professional services. Consideration received for these services is initially deferred (when invoiced in advance), included in accruals and deferred income and recognised as revenue in the period when the service is performed.

In recognising Recurring Services revenues, the Group recognises revenue equally over the duration of the contractual term. Third-party costs (where relevant) relating to these services are, likewise, spread equally over the duration of the contractual term.

Financial assets

Financial assets are divided into categories as appropriate. These are the first full year results which are presented by the Group following the adoption of IFRS 9 and 15. The adoption of both IFRS 15 and IFRS 9 has not resulted in restatements but has resulted in additional disclosure.

The Group implemented IFRS 9 Financial Instruments, as of 1 October 2018 and also considered the impact on the comparative results. IFRS 9 introduces principle-based requirements for the classification of financial assets, using the following measurement categories: (i) Amortised cost; (ii) Fair value through Other Comprehensive Income with cumulative gains and losses reclassified to profit or loss upon derecognition; and (iii) Fair value through profit or loss. IFRS 9 also introduces a new impairment model, the expected credit loss model.

The Group undertook an assessment of how the adoption of IFRS 9 would impact the Group's financial instruments. The key area that was identified across the business was the bad debt provisioning because of the implementation of the expected credit loss model and it was concluded that no restatement was required.

The Group now reviews the amount of credit loss associated with its trade receivables based on forward looking estimates, taking into account current and forecast credit conditions as opposed to relying on past historical default rates. In adopting IFRS 9 the Group has applied the Simplified Approach, applying a provision matrix based on number of days past due to measure lifetime expected credit losses and after taking into account customers with different credit risk profiles and current and forecast trading conditions. Having assessed the requirements according to the new standard, the Group has concluded that no significant additional impairment to the carrying values of the assets was required at 1 October 2017, at 30 September 2018 or at 30 September 2019.

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

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

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

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

3. Segment reporting

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

The CODM assess profit performance principally through adjusted profit measures consistent with those disclosed in the Annual Report and Accounts. The Board believes that the Group comprises a single reporting segment, being the provision of IT managed services to customers. Whilst the CODM reviews the revenue streams and related gross profits of three categories separately (Recurring Services, Product and Professional Services), the operating costs and operating asset base used to derive these revenue streams are the same for all three categories and are presented as such in the Group's internal reporting. Accordingly, the segmental analysis below is therefore shown at a revenue and gross profit level in line with the CODM's internal assessment based on the following reportable operating segments:

Recurring Services	–	This segment comprises the provision of continuing IT services which have an ongoing billing and support element.
Product	–	This segment comprises the resale of solutions (hardware and software) from leading technology vendors.
Professional Services	–	This segment comprises the provision of highly skilled resource to consult, design, install, configure and integrate IT technologies.

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

3.1 Analysis of continuing results

All revenues from continuing operations are derived from customers within the UK. This analysis is consistent with that used internally by the CODM and, in the opinion of the Board, reflects the nature of the revenue.

3.1.1 Revenue

	2019 £'000	2018 £'000
Recurring Services	**5,153**	7,100
Product	**1,405**	1,987
Professional Services	**699**	1,098
Total Revenue	**7,257**	10,185

3.1.2 Gross Profit

	2019 £'000	2018 £'000
Recurring Services	**2,896**	4,231
Product	**278**	439
Professional Services	**553**	1,035
Total Gross Profit	**3,727**	5,705

4. Separately identifiable costs

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

	2019 £'000	2018 £'000
Income from settlement of warranty claim	—	1,578
Costs in relation to the warranty claim and other M&A activities	—	(481)
Settlement of historic Microsoft licence review	—	(376)
Impairment of goodwill and intangible assets (Note 8)	(3,021)	(2,644)
Integration and restructure costs	(226)	(271)
Foreign exchange rate variances	(8)	—
Costs in relation to disposal of Pinnacle CDT Limited	—	(196)
Separately identifiable costs	(3,255)	(2,390)

The Board has assessed the carrying value of the Group's goodwill and following an assessment of current budgets and forecasts for the Group, an impairment charge of £3.0m (FY18: £2.6m) has been made.

5. Finance income and finance costs

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

	2019 £'000	2018 £'000
Interest income resulting from short-term bank deposits	**3**	**7**
Finance income	**3**	**7**
Interest expense resulting from:		
Finance leases	**3**	10
BGF loan notes	**400**	400
Effective interest on liability element of the BGF loan notes	**199**	199
Finance costs	**602**	609

6. Operating loss

	2019 £'000	2018 £'000
Operating loss is stated after charging:		
Depreciation of owned assets	**100**	136
Amortisation of intangibles	**907**	907
Operating lease rentals:		
– Buildings	**106**	105
Auditor's remuneration:		
– Audit of parent company	**22**	20
– Audit of subsidiary companies	**42**	37
– Audit costs relating to prior year	**20**	28
– Audit-related assurance services	**7**	6
– Corporation tax services	**10**	16

7. Loss per share

	2019 £'000	2018 £'000
Loss attributable to ordinary shareholders	**(5,150)**	(3,807)

	Number	Number
Weighted average number of Ordinary Shares in issue, basic and diluted	**227,065,100**	227,065,100
Basic and diluted loss per share	**(2.27)p**	(1.68)p

8. Intangible assets

Intangible assets	Goodwill £'000	IT, billing and website systems £'000	Brand £'000	Customer lists £'000	Total £'000
Cost					
At 1 October 2017	4,447	113	1,157	7,580	13,297
Adjustments to provisional fair values	—	29	—	—	29
At 1 October 2018	4,447	142	1,157	7,580	13,326
Additions	—	40	—	—	40
At 30 September 2019	**4,447**	**182**	**1,157**	**7,580**	**13,366**
Accumulated amortisation					
At 1 October 2017	—	(7)	(150)	(1,136)	(1,293)
Charge for the year	—	(20)	(115)	(772)	(907)
At 1 October 2018	—	(27)	(265)	(1,908)	(2,200)
Charge for the year	—	(20)	(115)	(772)	(907)
At 30 September 2019	—	**(47)**	**(380)**	**(2,680)**	**(3,107)**
Impairment					
At 1 October 2017	(200)	—	—	—	(200)
Charge in the year	(2,644)	—	—	—	(2,644)
At 1 October 2018	(2,844)	—	—	—	(2,844)
Charge in the year	(1,603)	—	(225)	(1,193)	(3,021)
At 30 September 2019	**(4,447)**	—	(225)	**(1,193)**	**(5,865)**
Carrying amount					
At 30 September 2019	—	**135**	**552**	**3,707**	**4,394**
At 30 September 2018	1,603	115	892	5,672	8,282
Average remaining amortisation period		**1.8 years**	**4.8 years**	**4.8 years**	**4.8 years**

In determining whether intangible assets including goodwill were impaired, the directors estimated the discounted future cash flows associated with the intangible assets over a ten-year period, using a discount rate equivalent to the WACC. The directors also considered the impact of the customer notice of termination received and the reduction in Trading EBITDA[1] during the year as indicators that the intangible assets were impaired. The goodwill and other intangibles were impaired by £3.0m during the year.

9. Property, plant and equipment

	IT equipment £'000	Fixtures, fittings and leasehold improvements £'000	Total £'000
Cost of assets			
At 1 October 2017	302	148	450
Additions	70	—	70
Disposals	(16)	—	(16)
At 30 September 2018	356	148	504
Additions	23	—	23
Disposals	(125)	(54)	(179)
At 30 September 2019	**254**	**94**	**348**
Depreciation			
At 30 September 2017	152	70	222
Charge for the year	79	57	136
At 30 September 2018	231	127	358
Charge for the year	80	20	100
Disposals	(118)	(54)	(172)
At 30 September 2019	**193**	**93**	**286**
Net book value			
At 30 September 2019	**61**	**1**	**62**
At 30 September 2018	125	21	146

10. Trade and other receivables

	2019 £'000	2018 £'000
Trade receivables	**951**	1,343
Warranty settlement	—	600
Other Debtors	**3**	36
Prepayments and accrued income	**535**	921
Trade and other receivables	**1,489**	2,900

11. Trade and other payables

11.1 Current

	2019 £'000	2018 £'000
Trade payables	**876**	1,102
Accruals and deferred income	**1,093**	1,937
Finance leasing liability – short-term element	**32**	32
Other taxes and social security costs	**302**	377
Total current liabilities	**2,303**	3,448

11.2 Non-current

	2019 £'000	2018 £'000
BGF loan notes repayable to the BGF between three and seven years	**5,000**	5,000
Less fair value adjustment relating to the BGF loan notes	**(730)**	(929)
Fair value of BGF loan notes	**4,270**	4,071
Finance leasing liability – long-term element	**16**	46
Total non-current liabilities	**4,286**	4,117

12. Financial instrument

On 26 May 2016, the Company issued £5m unsecured loan notes ("Loan Notes") to the BGF with a seven-year term (although redemption is permissible from the third anniversary) with repayment between the fifth and seventh anniversaries in equal semi-annual repayments that carry interest at 8% per annum ("Coupon"). Assuming that the Loan Notes were held for seven years and not redeemed early, the maximum credit exposure at 30 September 2019, including interest, is £6.0m (2018: £6.4m), of which £1.0m (2018: £1.4m) relates to interest. As previously described, the Company also agreed to grant the BGF an option to subscribe for 50,000,000 Ordinary Shares of 1p at a subscription price of 6p any time before 26 May 2031. As the Loan Notes are unsecured, no collateral was offered to the BGF as security. The Loan Notes are not exposed to market interest rate increases over the term.

In accordance with IAS 32, the Loan Notes and share warrant elements were linked and treated as a single financial instrument and shown at fair value.

The fair value of the share options at 26 May 2016 (date of grant) has been calculated using the Black Scholes pricing model incorporating the following key assumptions:

- share price volatility of 40%;
- spot price of 6p per share;
- risk-free rate of 0.9%; and
- option period, aligned with the maximum amount of time the loan can remain outstanding.

Based on the assumptions above, the Black Scholes pricing model provided a fair value for the share option of 2.89p per share, which implied a total fair value for the share option of £1.4m. Based on the expected Coupon payments and repayment profile under the loan notes, this implies an effective borrowing rate of 15%. This resulted in a fair value of the loan amount at 26 May 2016 of £3.6m. The difference between the Coupon rate and the effective interest charge at 15% is charged through the Consolidated Income Statement over the life of the loan notes and increases the outstanding loan note balance over time to match actual Coupon and capital cash repayments relating to the Loan Notes.

	Loan Note balance £'000	Carrying value Loan Notes £'000	8% interest payable £'000
Cash received from the BGF on 26 May 2016 for Loan Notes at 8% per annum interest	5,000	—	—
At 30 September 2018	5,000	4,071	—
Interest on Loan Notes at 8% per annum for the year to 30 September 2019	—	—	400
Notional interest on liability element of the BGF Loan Notes to 30 September 2019	—	199	—
At 30 September 2019	**5,000**	**4,270**	**400**

On 21 October 2019, the Group reached a settlement with BGF in relation to the £5m unsecured loan notes, further details are contained in note 13.

13. Post-balance sheet events

On 21 October 2019, the Group acquired the entire share capital of CloudCoCo Limited ("CloudCoCo"). CloudCoCo is a cloud, IT hardware, and IT services company that commenced trading in 2018 and has seen impressive growth in that short period. The consideration for the acquisition was satisfied through the issue of 218,160,586 ordinary shares in the Company which represents approximately 49.0% of the enlarged share capital. The shares were issued at the mid-market closing price of 3.3 pence, representing a total value of £7.2 million on completion.

Whilst it is too early to accurately assess the fair value of the assets and liabilities acquired prior to the production of this report, on 21 October 2019, CloudCoCo had cash balances of £157,000 and had signed a number of recurring customer contracts generating unaudited revenue of over £1m per annum. CloudCoCo has a very strong and experienced sales and business development team which had already shown its ability to win new business using its agile sales methodology. On 21 October 2019, following the acquisition, Andy Mills, former Chairman of CloudCoCo, joined the Board as Chief Executive Officer, focussing on driving the growth of the enlarged Group. Mark Halpin (founder and former Chief Executive Officer of CloudCoCo) is leading the Group's business development activities.

On completion of the acquisition, £1.5 million of the loan notes were waived and cancelled by BGF, reducing the Company's liability to £3.5 million. MXC Guernsey Limited, a wholly owned subsidiary of MXC Capital Limited ("MXC"), who now hold 15.2% of the shares in the Company, purchased the remaining £3.5 million loan notes from BGF and restructured their terms. The loan notes now carry a coupon of 12% compound per annum, rolled up and payable only at the end of the term. The term of the loan notes has been extended to October 2024 with no repayment due until that date unless the Company chooses to repay early. At the same time, MXC extended a £0.5 million, 2 year, working capital facility to the Company with interest charged at a rate of 12% per annum on amounts drawn down.

As part of the refinancing package, MXC also cancelled the warrants it held over 5% of the issued and future share capital of Adept4 and BGF's options were repriced to 0.35 pence. BGF exercised all of its options in October 2019 and, as MXC no longer holds warrants in the Company, the only obligations over the Company's shares are in respect of outstanding staff share options.

On 29 November 2019, the Company's name was changed to CloudCoCo Group plc.

The website address, at which information required pursuant to AIM Rule 26 is available, was changed with effect from 2 December 2019, to www.cloudcoco.co.uk.