AdEPT Telecom plc

("AdEPT" or the "Company", together with its subsidiaries the "Group")

Interim results for the 6 months ended 30 September 2017

AdEPT (AIM: ADT), one of the UK's leading independent providers of managed services for IT, unified communications, connectivity and voice solutions, announces its unaudited results for the 6 months ended 30 September 2017.

Highlights

Revenue and EBITDA

- Total revenue increased by 36% to £22.6 million (2016: £16.5 million)
- EBITDA increased by 34% to £4.7 million (2016: £3.5 million)
- EBITDA margin 21.0% (2016: 21.4%)

- Managed services revenue accounted for 68% of total revenue (2016: 53%)
- Managed services revenue increased by 75% to £15.3 million (2016: £8.8 million)

PBT, EPS and Dividends

- Profit before tax increased by 36% to £2.1 million (2016: £1.5 million)
- Adjusted profit before tax increased by 29% to £3.9 million (2016: £3.0 million)
- Adjusted EPS increased by 20% to 13.3p (2016: 11.1p)
- Interim dividend increased by 13% to 4.25p per share (2016: 3.75p)

Cash Flow and Debt

- Operating cash flow before tax of £3.8 million (2016: £3.2 million)
- Reported EBITDA to pre-tax cash from operating activities 86% (2016: 99%)
- Net senior debt of £20.8 million (2016: £10.8 million)
- BGF convertible loan note of £7.3 million used to fund Atomwide Limited acquisition

Acquisitions

- CAT Communications earnout settled in June 2017
- Comms Group earnout settled in full in July 2017
- Acquisition of Atomwide Limited completed in August 2017

BUSINESS REVIEW

I am pleased to report that in the 6 months to the 30 September 2017 the Group has made considerable progress on a wide range of fronts. In early 2015 we embarked on a journey to transform AdEPT from our original telecoms background into unified communications and then into IT, with a particular focus on London and the South East and the Public Sector. Our logic was simple: it is becoming increasingly difficult to tell where telecoms ends and IT starts in a world where 'work is something that we do, rather than necessarily, a place that you go to'.

We believe that the economy in London and the South East will continue to grow faster than the other regions in the UK and that there is an increasing drive in the Public Sector to put business with Small and Medium-sized Enterprises (SME's).

London and the South East

In London we are Chief Technology Partner to London Grid for Learning supplying over 3,000 schools, we have 47 hospitals and specialist medical facilities, over 200 business centres, hundreds of commercial customers, and a range of specialist data and cloud services being supplied to central government departments.

Public Sector and Healthcare

In March 2016, the Government set a target that 33% of public sector spend would be with SME's by 2022. 39% of total Group revenue is now from public sector and healthcare customers (2016: 29%) and as customers we currently have over 100 Councils, 15 NHS Trusts, more than 30 private hospitals, 15 universities, over 3,000 schools and some central government departments.

Both Atomwide and OurIT have been awarded approved supplier status on the new RM3804 Technology Services 2 Framework by Crown Commercial Services. This framework is designed to make it far easier for public sector customers to buy IT products and services. AdEPT Tunbridge Wells has been awarded HSCN (Health and Social Care Network) Compliance and is now authorised to sell data networks to the NHS.

Total revenue increased by 36% to £22.6 million with the increase being a reflection of:

- 6 month revenue contribution from OurIT Department Limited ("OurIT) following the acquisition in February 2017;
- 2 month revenue contribution from Atomwide following the acquisition in August 2017; and
- Flat overall organic revenue, with fixed line revenues reducing by 7% as expected and managed services organically increasing by 7%.

The continued progress of the Group's transition to a complete IT, unified communications, connectivity and voice solutions provider can be demonstrated with the 75% increase in revenue from managed services, including IT, unified communications and data connectivity to £15.3 million, which accounted for 68% of total revenue for the six months ended 30 September 2017 (2016: 53%).

ACQUISITION UPDATE

Centrix, Fleet (now rebranded as AdEPT Fleet)

Our first move into Unified Communications was the acquisition of Centrix in May 2015. Centrix has now been rebranded as AdEPT Fleet. The business continues to perform well, winning business both from existing and new customers; the most notable new client in the first half of the year being an international cruise line. In November 2016 we acquired CAT Communications, another Avaya Aura specialist and integrated the customer base and support into AdEPT Fleet. The integration has been successfully completed.

Comms Group, Northampton

In May 2016 we acquired Comms Group in Northampton; an Avaya IP Office specialist for smaller customers. The 12 month performance-based earn-out period ended on 31 May 2017. We are delighted to announce that Comms Group met its performance targets and as a result the maximum earn-out payment of £3.5 million was paid in July 2017.

OurIT Department, Chingford, St Neots and London

In February 2017, we acquired OurIT Department; our first IT business. OurIT brings us a wide range of IT products and services focused on London and South East customers. The integration into the Group has been successfully completed and sales are strong with a notable client win being a large construction business with 600 employees.

Contingent deferred consideration of between £Nil and £3.75m will be payable in April 2018 in cash, dependent upon the performance of OurIT Group post-acquisition. We anticipate that the amount payable will be towards the top end of the range.

Atomwide, Orpington

Our latest acquisition was Atomwide based at Orpington in August 2017. Atomwide is the UK's leading specialist in IT for Education with more than 3,000 schools and over 2 million users. We now have over 1 million Office 365 users; this is one of the largest single Office 365 deployments in the world. Included in the acquisition is a data centre at Orpington and a specialist app development team. Since the acquisition in August 2017 the sales and finance functions of Atomwide have been integrated into the Group reporting procedures.

Contingent deferred consideration of between £Nil and £8.0 million may be payable in cash, dependent upon the performance of Atomwide post-acquisition.

PROFIT BEFORE TAX AND EARNINGS PER SHARE

Profit before tax increased by 36% to £2.1 million (2016: £1.5 million).

Adjusted (basic) earnings per share increased by 20% to 13.3p for the six months ended 30 September 2017 (2016: 11.1p). The issue of 1,204,717 ordinary shares following the exercise of the share warrant by Barclays in March 2017 increased the weighted average number of shares in the current period, which has had a dilutive impact on the basic earnings per share when compared to the prior period. The Barclays shareholding was subsequently placed in August 2017 with a combination of existing institutional shareholders and the vendors of the recent acquisitions, OurIT and Comms Group.

FINANCING AND CASH FLOW

Cash generated from operating activities before tax increased by 20% to £3.8 million (2016: £3.2 million), which equates to an 86% reported EBITDA conversion (after £0.2 million acquisition fees). The increase to absolute cash flow conversion was driven by the improved profit before tax.

Dividends paid in the period absorbed £0.9 million of funds (2016: £0.7 million), this increase reflects the progressive dividend policy of the Board.

The Company operates a capex-light model and therefore capital expenditure on tangible fixed assets remained low at 0.3% of revenue.

£10.5 million of available funds (net of cash acquired) was used to fund the initial cash consideration for the acquisition of the entire issued share capital of Atomwide on 2 August 2017. Deferred consideration of £3.5 million in respect of the Comms Group acquisition (in May 2016) and £0.4 million in respect of the CAT Communications acquisition was paid during the period.

The Senior Debt:EBITDA (annualised) ratio remained comfortable at 2.2x at 30 September 2017. Total senior debt has increased to £20.8 million at 30 September 2017 and has been used to fund the acquisition consideration paid in the period.

In August 2017 the Group raised £7.3 million 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, Barclays and RBS. The Group has applied the principles of IAS 32 and IAS 39 in the recognition and measurement of the convertible loan. The net present value of the loan of £7.1 million has been split between the debt and equity components and an amount of £1.3 million has been recorded in equity, with £5.8 million being included within long term debt. The discount charge of £0.2m is being recognised in the interest charge in the income statement across the term of the convertible instrument.

DIVIDENDS

As announced on 4 October 2017, the Directors have declared an interim dividend of 4.25p per Ordinary Share in respect of the period ended 30 September 2017, an increase of 13% over the interim dividend for the comparative period (2016: 3.75p). This will absorb approximately £1.0 million of shareholders' funds (2016: £0.8 million). It is proposed by the Directors that this dividend will be paid on 9 April 2018 to shareholders who are on the register of members on the record date of 16 March 2018. Subject to the audited results for the year ending 31 March 2018, it is the intention of the Board to propose a final dividend with the March 2018 final results.

Dividend cover for the interim period was 3.1x (2016: 3.0x). Strong free cash flow generation has continued since the end of the period, and there continues to be scope for the Board to continue its progressive dividend policy.

BOARD APPOINTMENT

On 8 November 2017 we announced the appointment of Christopher Kingsman as a Non-Executive Director. Christopher brings a broad range of experience from investing in and being involved with a number of public and private companies across different sectors. A graduate of Cambridge University, he started his career with Fidelity Investments and has managed a hedge fund and family office. He is the principal of a private Swiss investment group, executive chairman of Aranca, a global research, analytics and advisory firm based in India, and is a director of a number of private companies.

Through Greenwood Investments Ltd, he has been the second largest shareholder of AdEPT since 2011, having increased his stake in August 2017 from 15.1% to 16.9% of the current issued share capital of the Company.

OUTLOOK

Without an outstanding team at all levels of the business, a transformation on this scale could not have been achieved so quickly and, on behalf of the Board, I would like to thank them for an amazing 6 months.

We are now approximately 200 staff with several thousand years of industry experience in an increasingly wide range of technologies that provide an excellent platform for our future growth. AdEPT provides a full suite of managed services and is now in an excellent position to take advantage of the continuing convergence between IT and Telecoms. We continue to be highly cash generative with adequate funding facilities in place to enable the Board to continue to identify earnings-enhancing acquisitions whilst retaining scope for a progressive dividend policy.

Roger Wilson
Chairman
14 November 2017

This announcement contains inside information.

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About AdEPT Telecom plc:
AdEPT Telecom plc is one of the UK's leading independent providers of managed services for IT, unified communications, connectivity and voice solutions. AdEPT's tailored services are used by thousands of customers across the UK and are brought together through the strategic relationships with tier-1 suppliers such as BT Openreach, Vodafone, Virgin Media, Avaya, Microsoft, Dell and Apple.

AdEPT is listed on the London Stock Exchange (Ticker: ADT). For further information please visit: www.adept-telecom.co.uk

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Six months ended 30 September 2017 £'000	Restated 30 September 2016 £'000
REVENUE		**22,567**	16,533
Cost of sales		**(12,101)**	(9,831)
GROSS PROFIT		**10,466**	6,702
Administrative expenses		**(7,708)**	(4,789)
OPERATING PROFIT		**2,758**	1,913
Total operating profit – analysed:			
Operating profit before acquisition fees, share-based payments, depreciation and amortisation		**4,740**	3,532
Share-based payments		**(20)**	(12)
Acquisition fees		**(217)**	(292)
Depreciation of tangible fixed assets		**(195)**	(149)
Amortisation of intangible fixed assets		**(1,550)**	(1,166)
Total operating profit		**2,758**	1,913
Finance costs		**(660)**	(367)
Finance income		**1**	-
PROFIT BEFORE INCOME TAX		**2,099**	1,545
Income tax expense		**(557)**	(309)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,542**	1,237
Attributable to:			
Equity holders		**1,542**	1,237
Earnings per share			
Basic earnings per share (pence)	3	**6.7p**	5.5p
Diluted earnings per share (pence)	3	**6.7p**	5.2p
Adjusted earnings per share, after adding back amortisation			
Basic earnings per share (pence)	3	**13.3p**	11.1p
Diluted earnings per share (pence)	3	**12.1p**	10.6p

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2017 £'000	Restated 30 September 2016 £'000	*31 March 2017 £'000*
ASSETS			
Non-current assets			
Goodwill	**12,493**	6,384	*11,217*
Intangible assets	**39,404**	24,795	*28,559*
Property, plant and equipment	**1,169**	566	*863*
	53,066	31,745	*40,639*
Current assets			
Inventories	**240**	184	*196*
Trade and other receivables	**6,970**	4,721	*5,514*
Cash and cash equivalents	**3,184**	1,579	*1,238*
	10,394	6,484	*6,948*
Total assets	**63,460**	38,229	*47,587*
LIABILITIES			
Current liabilities			
Trade and other payables	**13,117**	9,359	*13,049*
Income tax	**297**	356	*664*
Short term borrowings	**-**	-	*706*
	13,414	9,715	*14,419*
Non-current liabilities			
Deferred income tax	**5,159**	3,813	*4,057*
Convertible loan instrument	**5,795**	-	*-*
Long term borrowings	**24,000**	12,367	*15,988*
Total liabilities	**48,368**	25,895	*34,464*
Net assets	**15,092**	12,334	*13,123*
SHAREHOLDERS' EQUITY			
Share capital	**2,370**	2,248	*2,370*
Share premium	**479**	429	*479*
Share capital to be issued	**1,349**	68	*34*
Capital redemption reserve	**18**	16	*18*
Retained earnings	**10,876**	9,573	*10,222*
Total equity	**15,092**	12,334	*13,123*

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

			Attributable to equity holders of parent			
	Share capital £'000	Share premium £'000	Share capital to be issued £'000	Capital redemption reserve £'000	Retained earnings £'000	Total equity £'000
Equity at 1 April 2016	**2,248**	**429**	**56**	**16**	**9,011**	**11,760**
Profit for 6 months ended 30 September 2016	-	-	-	-	1,237	1,237
Share based payments	-	-	12	-	-	12
Dividend	-	-	-	-	(675)	(675)
Balance at 30 September 2016	**2,248**	**429**	**68**	**16**	**9,573**	**12,334**
Profit for 6 months ended 31 March 2017	-	-	-	-	1,512	1,512
Dividend	-	-	-	-	(786)	(786)
Deferred tax asset adjustment	-	-	-	-	(69)	(69)
Exercise of warrants	-	-	(53)	-	53	-
Share based payments	-	-	19	-	-	19
Issue of share capital	124	50	-	-	-	174
Shares repurchased and cancelled	(2)	-	-	2	(61)	(61)
Balance at 31 March 2017	**2,370**	**479**	**34**	**18**	**10,222**	**13,123**
Profit for 6 months ended 30 September 2017	-	-	-	-	1,542	1,542
Share based payments	-	-	20	-	-	20
Dividend	-	-	-	-	(888)	(888)
Equity element of convertible instrument issued	-	-	1,295	-	-	1,295
Balance at 30 September 2017	**2,370**	**479**	**1,349**	**18**	**10,876**	**15,092**

UNAUDITED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended		*Year ended*
	30 September	30 September	*31 March*
	2017	2016	*2017*
	£'000	£'000	*£'000*
Cash flows from operating activities			
Profit before income tax	**2,099**	1,473	*3,404*
Depreciation and amortisation	**1,745**	1,388	*2,761*
Share based payments	**20**	12	*31*
Net finance costs	**659**	367	*928*
Decrease in inventories	**(14)**	9	*33*
Decrease/(increase) in trade and other receivables	**(272)**	256	*(123)*
Increase/(decrease) in trade and other payables	**(413)**	(311)	*(1,202)*
Cash generated from operations	**3,824**	3,194	*5,832*
Income taxes paid	**(649)**	(448)	*(1,504)*
Net cash from operating activities	**3,175**	2,746	*4,328*
Cash flows from investing activities			
Interest paid	**(317)**	(190)	*(405)*
Acquisition of trade and assets	**(14,324)**	(6,576)	*(11,987)*
Purchase of intangible assets	**(36)**	(23)	*(26)*
Purchase of property, plant and equipment	**(57)**	(108)	*(146)*
Net cash used in investing activities	**(14,734)**	(6,897)	*(12,564)*
Cash flows from financing activities			
Dividends paid	**(889)**	(674)	*(1,461)*
Payments made for share repurchases	**-**	-	*(61)*
Share capital issued	**-**	-	*174*
Convertible loan instrument	**7,293**	-	-
Increase in bank loan	**7,806**	238	*3,950*
Net cash (used in)/from financing activities	**14,211**	(436)	*2,602*
Net increase/(decrease) in cash and cash equivalents	**2,652**	(4,587)	*(5,634)*
Cash and cash equivalents at beginning of period/year	**532**	6,166	*6,166*
Cash and cash equivalents at end of period/year	**3,184**	1,579	*532*
Cash at bank and in hand	**3,184**	1,579	*1,238*
Bank overdrafts	**-**	-	*(706)*
Cash and cash equivalents	**3,184**	1,579	*532*

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 2017, prepared under International Financial Reporting Standards, were approved by the board of directors on 26 July 2017 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 2017 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 Group’s annual financial statements for the year ended 31 March 2017.

The Group has applied the principles of IFRS3 and IAS12 and made full provision for the deferred tax liability on future amortisation charges in relation to the company acquisitions undertaken to date. The deferred tax liability is released as the amortisation is charged to the statement of comprehensive income. The prior year comparatives have been restated to apply this accounting principle as if it had been adopted throughout the periods covered by the interim financial statements. All goodwill created on the deferred tax liability in respect of company acquisitions prior to 1 April 2015 has been fully written down.

In the Group’s annual financial statements for the year ended 31 March 2017 the Group reviewed the intangible assets acquired during the year ended 31 March 2016. This resulted in the reallocation of some of the intangible assets to goodwill acquired as part of business combination. The prior year comparative intangible asset value and the corresponding amortisation charge have been restated to apply this accounting principle as if it had been adopted throughout the periods covered by the interim financial statements.

The Group has applied the principles of IAS 32 and IAS 39 in the recognition and measurement of the convertible loan note instrument. An amount of £1.3 million has been recorded in equity, with the net present value of the balance of the convertible loan note value of £5.8m being included within long term debt in the statement of financial position.

3 Earnings per share

	Six months ended		*Year ended*
	30 September	30 September	*31 March*
	2017	2016	*2017*
	£’000	£’000	*£’000*
Earnings for the purposes of basic and diluted earnings per share			
Profit for the period attributable to equity holders of the parent	**1,542**	1,237	*2,749*
Add: amortisation	**1,550**	1,166	*2,482*
Less: taxation on amortization of purchased customer contracts	**(59)**	(59)	*(118)*
Less: deferred tax credit on amortisation charges	**(195)**	(147)	*(633)*
Add: share option charges	**20**	12	*31*
Add: acquisition fees	**217**	292	*703*
Adjusted profit attributable to equity holders of the parent, adding back acquisition fees and amortisation	**3,075**	2,501	*5,214*
Number of shares			
Weighted average number of shares used for earnings per share	**23,194,445**	22,457,567	*22,585,580*
Dilutive effect of share plans	**2,138,315**	1,189,808	*1,182,598*
Diluted weighted average number of shares used to calculate fully diluted earnings per share	**25,332,760**	23,647,375	*23,768,178*

Earnings per share			
Basic earnings per share (pence)	**6.7p**	5.5p	*12.2p*
Fully diluted earnings per share (pence)	**6.1p**	5.3p	*11.6p*
Adjusted earnings per share, after adding back acquisition fees, amortisation and non-recurring costs			
Adjusted basic earnings per share (pence)	**13.3p**	11.1p	*23.1p*
Adjusted fully diluted earnings per share (pence)	**12.1p**	10.6p	*21.9p*

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, the taxation deduction on purchased customer contracts, the deferred tax credit on amortisation charges, share option charges and acquisition costs, as all of these are purely non-cash accounting adjustments) 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 Group's internal reporting in order to assess performance and allocate resources. The operating segments are fixed line services and managed services, which incorporates cloud-based contact centre solutions, data connectivity, mobile, hardware 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 2017				Unaudited (restated) 6 months ended 30 September 2016			
	Fixed line services	**Managed services**	**Central costs**	**Total**	Fixed line services	Managed services	Central costs	Total
Revenue	**7,224**	**15,343**	**-**	**22,567**	7,772	8,761	-	16,533
Gross profit	**2,800**	**7,666**	**-**	**10,466**	3,158	3,544	-	6,702
Gross margin %	**38.8%**	**50.0%**	**-**	**46.4%**	40.6%	40.5%	-	40.5%
EBITDA	**1,473**	**3,267**	**-**	**4,740**	1,681	1,851	-	3,532
EBITDA %	**20.4%**	**21.3%**	**-**	**21.0%**	21.6%	21.1%	-	21.4%
Amortisation	**(1,005)**	**(545)**	**-**	**(1,550)**	(852)	(314)	-	(1,166)
Depreciation	**-**	**-**	**(195)**	**(195)**	-	-	(149)	(149)
One-off costs	**-**	**-**	**(217)**	**(217)**	-	-	(292)	(292)
Share-based payments	**-**	**-**	**(20)**	**(20)**	-	-	(12)	(12)
Operating profit/(loss)	**468**	**2,722**	**(432)**	**2,758**	829	1,537	(453)	1,913
Finance costs	**-**	**-**	**(659)**	**(659)**	-	-	(367)	(367)
Income tax	**-**	**-**	**(557)**	**(557)**	-	-	(309)	(309)
Profit after tax	**468**	**2,722**	**(1,648)**	**1,542**	829	1,537	(1,129)	1,237

	Audited Year ended 31 March 2017			
	Fixed line services	*Managed services*	*Central costs*	*Total*
Revenue	*15,365*	*19,071*	-	*34,436*
Gross profit	*6,074*	*8,497*	-	*14,571*
Gross margin %	*39.5%*	*44.6%*	-	*42.3%*
EBITDA	*3,387*	*4,440*	-	*7,827*
EBITDA %	*22.0%*	*23.3%*	-	*22.7%*

Amortisation	*(1,907)*	*(575)*	*-*	*(2,482)*
Acquisition costs	*-*	*-*	*(279)*	*(279)*
Depreciation	*-*	*-*	*(703)*	*(703)*
Share-based payments	*-*	*-*	*(31)*	*(31)*
Operating profit/(loss)	*1,480*	*3,865*	*(1,013)*	*4,332*
Finance costs	*-*	*-*	*(928)*	*(928)*
Income tax	*-*	*-*	*(655)*	*(655)*
Profit after tax	*1,480*	*3,865*	*(2,596)*	*2,749*

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. For the six months ended 30 September 2017, transactions with the largest customer of the Group accounted for 8.5% of revenue.

5 Share options

Details of the share options outstanding during the period are as follows:

	6 months ended 30 September 2017		6 months ended 30 September 2016		*Year ended 31 March 2017*	
	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	**392,500**	**228p**	1,469,840	49p	*1,440,759*	*49p*
Granted during the period	**2,095,910**	**386p**	-	-	*159,520*	*228p*
Exercised during the period	**-**	**-**	-	-	*(1,236,860)*	*14p*
Outstanding at end of period	**2,488,410**	**361p**	1,469,840	49p	*392,500*	*228p*

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

	30 September 2017	30 September 2016	*31 March 2017*
Risk free interest rate	**0.50%**	2.69%	*0.50%*
Expected volatility	**19.0%**	22.0%	*28.0%*
Expected option life (years)	**3.0**	3.0	*3.0*
Expected dividend yield	**2.5%**	2.9%	*2.3%*
Weighted average share price	**269p**	222p	*229p*
Weighted average exercise price	**269p**	222p	*229p*
Weighted average fair value of options granted	**33p**	30p	*31p*

The expected average volatility was determined by reviewing the last 260 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 2.5% which is based upon the actual dividend yield for the period ended 30 September 2017. 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 2017 was 285p and the range during the period was 170p.

The share option expense recognised during the period in the statement of comprehensive income was £20,342 (September 2016: £12,110).

6 Business combinations

On 2 August 2017 the Company acquired the entire issued share capital of Atomwide Limited (‘Atomwide’) for an initial consideration of £12 million plus the value of the surplus cash balance of Atomwide at completion (approximately £6.2 million), payable in cash. Further contingent deferred consideration of between £nil and £8.0 million may be payable, also in cash, dependent upon the performance of Atomwide post-acquisition.

The contingent deferred consideration will be determined by reference to the forecast churn/growth rate for the gross margin of the acquired business and applying the contingent deferred consideration matrix as specified in the share purchase agreement. The fair value of contingent deferred consideration has been determined by reference to the growth rate for the gross margin of the acquired business and applying the contingent deferred consideration matrix as specified in the share purchase agreement. The contingent consideration liability of £2.0 million has been discounted at the Group's weighted average cost of capital with the value of the discount of £0.15 million being included within finance costs over the deferred consideration period as an interest charge. Total consideration is anticipated to be £14.0 million (net of the surplus cash acquired).

Atomwide, founded in 1987, is an IT services provider with over 30 years' experience, offering specialised IT support services and technology solutions to approximately 2 million users in over 3,000 schools.

Atomwide is the chief technology partner for London Grid for Learning, supplying IT services to around 3,000 schools in London. The bespoke services have been created by the in-house development team and are supported by an experienced team of IT professionals based at Atomwide's premises in Orpington, Kent.

All of the senior management team which are responsible for the strategic direction, technical development and the day-to-day operations of Atomwide are to be retained within the business post-acquisition.

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

	Book cost £'000	Fair value £'000
Intangible assets	—	12,565
Property, plant and equipment	453	453
Inventories	30	30
Trade and other receivables	1,524	1,524
Cash and cash equivalents	7,916	7,916
Trade and other payables	(2,710)	(2,710)
Income tax	274	274
Net assets	**7,487**	**20,052**
Cash		(18,210)
Contingent cash consideration		(1,842)
Fair value total consideration		(20,052)
Goodwill		—

Atomwide contributed revenue and profit after tax of £1.7 million and £0.3 million respectively for the six month period ended 30 September 2017 and represents a two month contribution. Acquisition related costs of £0.2m have been recognised as an expense in the statement of comprehensive income for the period ended 30 September 2017.