Company Note

Initiation

24 August 2021

Corporate

Current price	1.35p

Sector	TMT
Code	CLCO.L
AIM	AIM

Share Performance

	1m	3m	12m
CLCO.L	+17%	-3.6%	+14.9%

Source: Thomson Reuters, Allenby Capital

Share Data (pro forma)		
Market Cap (£m)		9.5
Shares in issue (m)		705.2
52 weeks (p)	High	Low
	1.80	1.00
Financial year end		30 September

Source: Company Data, Allenby Capital

Key Shareholders (pre placing)	
Mark Halpin (CEO)	28.4%
MXC Capital Ltd	15.2%
Andy Mills (NED)	6.6%
Darren Weston	3.9%
Graham Collinson	3.5%

Source: Company Data, Allenby Capital

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CloudCoCo Group plc (CLCO.L)

Challenging the incumbent UK IT providers

CloudCoCo Group plc (CLCO.L), a managed IT services provider (MSP) and value added reseller (VAR) to the UK public and private sector, has, subject to GM, raised £2.1m at 1p/share to fund an acquisition and increase working capital. The acquisition, an automated cloud-based VAR and MSP, will scale CLCO's current operations – customers, revenue, and product and service offering. The CloudCoCo Ltd team that joined in late 2019 has successfully turned round the inherited business and the proposed acquisition will further accelerate its growth. CloudCoCo is focused on four key IT spending trends: Cloud, Cyber security, Connectivity and Collaboration. Although COVID-19 has caused disruption, the pandemic has accelerated these trends and CloudCoCo can capitalise with its asset-light model and focus on quality and speed of service. The UK MSP market remains fragmented and CloudCoCo can grow organically and through further acquisition. We introduce forecasts for the enlarged group and a 2.15p fair value.

- **Strategic acquisition:** The proposed acquisition of the group comprising Systems Assurance Ltd and More Computers Limited for £0.8m (net) in cash up front and up to 6m performance-based warrants at 1.5p/share will transform the way that CloudCoCo delivers IT hardware products and services to its business customers. The target's automated Electronic Data Interchange (EDI) e-commerce platform connects customers directly to c. 100 product and service providers and this will lower costs, and improve speed, accuracy and business efficiency. This will benefit both CloudCoCo's existing business as well as any future acquisitions. FY20 results (December) demonstrated group revenue of £6m and an EBITDA of £0.2m. The proposed acquisition also has a Managed IT Services division (c. 17% of revenue) that complements CloudCoCo's own MSP operations.

- **Financial progress:** CloudCoCo's recent interims demonstrated its continued progress. Trading EBITDA for the six months to March 2021 increased 435% to £364k (H1 FY20: £68k, H2 FY20: £193k) with H1 revenue and total contract value increasing over H2 FY20 in spite of the continued effects of the pandemic on its end markets.

- **Outlook:** The proposed acquisition and associated fundraising introduces a proven and scalable hardware engine into CloudCoCo's existing VAR business as well as expanding its MSP offering. This will help to increase operational efficiency and drive margins. The fundraising also strengthens CloudCoCo's balance sheet and provides greater flexibility for further acquisitions. We introduce forecasts and a 2.15p/share fair value, equivalent to an FY23 EV/EBITDA of 19.3x and EV/Revenue of 1.0x.

Year End: 30 September

(£'000)	2019A	2020A	2021E*	2022E*	2023E*
REVENUE	7,257	7,970	8,031	14,988	16,458
TRADING EBITDA	(235)	261	752	1,122	1,387
ADJ. EBITDA	(3,982)	(714)	292	639	880
ADJ. PBT	(1,841)	(1,992)	(907)	(480)	(211)
ADJ. EPS (p)	(0.6)	(0.4)	(0.2)	(0.1)	(0.0)
NET CASH/(DEBT)	(3,959)	(2,974)	(2,635)	(2,639)	(2,079)
EV/TRADING EBITDA (x)	NEG	47.9	16.2	10.8	8.4

Allenby Capital acts as Nomad & Broker to CloudCoCo plc (CLCO.L). * assumes acquisition and £2.1m placing.

Please refer to the last page of this communication for all required disclosures and risk warnings.

Equity Research

Investment summary

CloudCoCo provides investors with exposure to the UK Managed IT Services provision (MSP) and Value Added Reseller (VAR) sectors for mid-market organisations in the private and public sectors. The management team, that came into the company in October 2019, following CloudCoCo Ltd.'s acquisition by adept4 plc, has turned that business round, reducing costs, improving customer service levels and securing new business (including boohoo Group plc and a major operator of franchised car dealerships) and multi-year renewals with existing customers, in spite of the considerable disruption caused by the pandemic. CloudCoCo has focused on four growing IT trends: Cloud, Cyber security, Connectivity and Collaboration. The progress has been evidenced by the company's last three sets of results.

'Get Well, 'Get Fit', 'Get Bigger'

Having completed the 'Get Well' and 'Get Fit' phases, the management team is focused on 'Getting Bigger' through organic growth and selective acquisition. The company has raised, subject to GM, £2.1m at 1p/share to fund an acquisition that would broaden its service offering, increase revenue, and provide scope for a substantial increase in profitability going forward through increased efficiency in its VAR business. The additional funds will be used for the integration of the acquisition, strengthen the balance sheet and working capital.

Proposed acquisition

Automated cloud-based Value Added Reseller and managed service provider

The proposed acquisition comprises two businesses based in Sheffield, Systems Assurance Ltd and More Computers Ltd. Founded in 1992, the group seeks to reduce overall spending on IT hardware and services by providing global bids on its clients' hardware and services' requirements directly with the suppliers. Systems Assurance is an automated cloud-based Value Added Reseller and managed service provider to a wide range of public and private sector organisations (www.systemsassurance.com). More Computers is a B2C VAR (www.morecomputers.com).

The e-commerce platform lists nearly a million products (IT and AV equipment, software, electronics, electricals and components) from c. 2,000 vendors and has supplied many of the major UK retailers including Tesco, Amazon, eBay and GAME as well as hundreds of IT dealers. This scale means it is able to offer keen pricing on a wide range of products. The EDI (electronic data interchange) links with c. 100 providers enables the hardware engine to offer real time stocking information, and order and delivery on a wide range of hardware products and services on a 'no touch' basis – i.e. product is ordered and delivered direct to the customer without any involvement from the company. This will substantially increase the efficiency of both CloudCoCo's existing VAR business but also any future VAR acquisitions.

The VAR business prides itself on the level of its customer service and lack of hidden charges (e.g. credit card surcharges, delivery fees, cancellation fees and standard rate telephone numbers) and transparency of its terms and conditions. This fits with the CloudCoCo business ethos. The VAR business accounted for c. 80% of FY20 revenue and 29% of all B2B sales are recurring software subscriptions.

Systems Assurance's managed service division offers cloud migrations (Office 365, Dynamics, Azure), infrastructure services (security, networking, business continuity, data analytics), maintenance and support, professional services (audio visual, managed print, procurement), and software asset management (multi-vendor software audit assistance). The division is a Microsoft Gold Partner and complements CloudCoCo's existing MSP business with around 150 customers.

In FY20, the company achieved revenue of c.£6m and an adj. EBITDA of £0.2m. The consideration is £0.8m in cash (net) and up to 6m performance-based warrants at

1.5p/share. The acquired business will have c. £0.8m in cash on acquisition. The business has eleven staff including three enterprise sales. The two owner-founders are not expected to stay with the business in the long term. Management has identified some cost synergies (c. £0.1m per annum) at a restructuring cost of c. £0.2m. There is considerable scope to expand the team at the current Sheffield premises.

Better enable CloudCoCo to challenge the incumbent IT providers

The proposed acquisition of the business and the EDI platform will better enable CloudCoCo to challenge the incumbent IT providers by delivering enterprise grade on-demand IT products and services to its customers. CloudCoCo will also expand the EDI platform to cover software licensing and potentially telephony where CloudCoCo already has a presence.

CloudCoCo's strategy

In 2019, the chairman outlined four key objectives for FY20: increase sales, reduce customer churn, reduce costs and return to net cash generation. In spite of the impact of the pandemic, CloudCoCo achieved a £496k positive swing in Trading EBITDA to £261k in FY20, increased multi-year contracts (Total Contract Value increased 97%), generated cash and saw significant improvements to customer satisfaction.

'Get Well'

The initial goal of the incoming management team was for the enlarged business to 'Get Well' (H1 FY20). This focused on reducing customer churn by improving customer service, reducing costs and returning the business to cash generation in spite of the challenges posed by COVID-19.

'Get Fit'

The second phase (H2 FY20), 'Get Fit', saw the company clarify its offering around four areas of technology (Cloud, Cyber security, Connectivity and Collaboration), refresh its web site and secure new customers, competing against large traditional IT services companies. Internally, the company launched the CoCo-One programme that includes issuing performance-based share options to all qualifying staff.

CloudCoCo launched its new web site at the start of FY21 and has continued to enrich it with content as well as increasing its social media output. Traffic to the web site was up 29% (March 2021 versus October 2020) and LinkedIn followers increased 19%. The company has also combined its technical teams in the Warrington and Leeds offices in order to improve efficiency, knowledge sharing and deliver faster and better projects. Its 50 staff deliver IT services on a 24x7 basis to c.500 UK organisations.

Success reflected in financial results

The success of management's actions are reflected in the company's financial results. In its interims to March 2021, trading EBITDA (excluding share-based payments, one-off and plc costs) increased 435% to £364k (H1 FY20: £68k, H2 FY20: £193k) with H1 revenue and total contract value increasing over H2 FY20 in spite of the continued effects of the pandemic on its end markets. CloudCoCo's cash position also improved with cash at bank increasing £0.3m to £0.6m (H1 FY20: £0.3m; FY20: £0.6m).

'Get Bigger'

The next phase is 'Get Bigger' organically and through acquisition to provide scale to the business. The proposed acquisition will substantially increase CloudCoCo's customer base and provides the opportunity for cross-selling/upselling more of its services. The e-commerce division will increase the purchasing power of the enlarged group as well as broadening its product range. Systems Assurance's e-commerce engine will also streamline CloudCoCo's current processes and offer greater efficiency and margin accretion through automation.

Fair value of 2.15p/share.

The enlarged group will have annualised pro forma revenue of c. £14m and a blended trading EBITDA margin of 8% to 9% - System Assurance's weighting towards VAR will bring down gross margins but the scalability of the platform should benefit EBITDA margin as the enlarged business continues to grow. Following integration in FY22, we expect FY23 EBITDA of £0.9m, and a fair value of 2.15p/share is equivalent to an EV/EBITDA multiple of 19.3.

Business overview

CloudCoCo provides complete lifecycle IT and communications solutions typically to mid-market UK organisations (150 to 1,000 employees) in both the private and public sectors. It works with a range of partners, service providers, distributors and vendors and its services enable business optimisation and transformation, team working, cost savings, and streamlined workflows through the investment in IT. The business model can support multi-national business and smaller SME customers (10 to 149 employees).

'Attract, engage and delight' model

The sales and marketing strategy is premised on a simple 'attract, engage and delight' model that includes challenger lead marketing with highly responsive engagement times and service levels. CloudCoCo markets itself primarily across digital and social media but is also seeing an increasing number of referrals from both existing customers but also from strategic partners as it secures higher partner accreditation status and demonstrates a track record of successful projects.

Exhibit 1: CloudCoCo's portfolio

Cloud & Data Centre	Cyber Security	Connectivity	Collaboration
Public Cloud Private Cloud Hybrid Cloud VMware GPU Servers Bare Metal Servers Co-Location Data Centre Migration Server Optimisation Business Continuity Disaster Recovery Veeam Backup Gaming Start-Ups Global Streaming Services	Fortinet Cyber Security Solutions Security Fabric Zero Trust Access Security Driven Network Adaptive Cloud Security Cyber Security Protection Network Security Endpoint Protection Email Security Access Management Identity Management Security Operations AWS Security Security Assessments and Testing Security Assessments Penetration Testing Cloud Application Testing Cyber Essentials Accreditations	Secure Global Learning Leased Lines Broadband & Ethernet SD-WAN Public Sector Networks LAN, WiFi and analytics Internet Services Cloud Connectivity	Cloud Telephony Unified Comms SIP Trunking Analogue Calls & Lines Inbound Services (NGN) Mobile & MDM Contact Centre Mitel Maintenance & Support

Microsoft	Hardware & Software	Professional Services / IT Consulting	Managed Services
Microsoft 365 Microsoft Teams Windows Virtual Desktops Microsoft Azure Microsoft Training Windows 10 Migrations	Digital Speech to Text Device as a Service IT Hardware Licensing Secure Asset Disposal Asset Management Lenovo Windows 10 Migrations	Assess & Discover Design & Implement Migrate & Transform Optimise & Innovate	Service Desk Managed Infrastructure Network Operations Centre Security Operations Centre Field Services

Source: Company

CloudCoCo works with its customers to understand the specific business challenges, assesses the market players within its partner ecosystem and the preferred supplier is selected. It then works with the technical partner to design the solution and then develop and optimise this over time to maximise the return on investment. CloudCoCo provides 24/7 support and customer service reporting is conducted quarterly. The business is segmented into Managed IT Service provision (MSP) and Value Added Resale (VAR).

Exhibit 2: Selected customers

Source: Company; Allenby Capital

The company has focused on four growth trends in the technology space: Cloud, Collaboration, Connectivity and Cybersecurity.

Exhibit 3: Service offering

Source: Company

Cloud

Hardware-based on-premise solutions continue to make up the majority of IT spend. That said, cloud-based solutions are growing rapidly as a result of the business agility, transformation, scalability and innovation they enable. This trend towards cloud-based solutions predates COVID-19 but the widespread adoption of remote working necessitated by the pandemic has significantly accelerated the rate of adoption.

CloudCoCo is a Tier 1 Microsoft Cloud Solution Provider (CSP) with Gold Cloud Platform Competency and is able to support organisations through the process of cloud adoption – strategy, planning, readiness, migration, management and governance. It is also one of the first THG hosting partners in the UK

Collaboration

The dramatic increase in the usage of online collaboration platforms, most notably Microsoft Teams, related to remote working has created a significant opportunity for MSPs such as CloudCoCo to assist organisations to swiftly adopt, actively use and fully realise the user experience and business productivity outcomes offered by cloud-based unified communications and collaboration solutions. It has worked with Microsoft to develop the external telephony capabilities of Microsoft Teams and with Anywhere365 to add call centre capabilities to Teams.

Connectivity

Organisations now need to connect to a more distributed community of users with a more dispersed mix of corporate data centre applications, public cloud environments, SaaS services and data storage resources. CloudCoCo can support organisations with hybrid IT and multi-cloud environments across multiple locations and thousands of users, delivering various forms of connectivity such as high speed internet, WiFi, piping as well as capabilities in SD-WAN (software defined networking in a wide area network). It has Mitel Gold partner status.

Cybersecurity

The need for cybersecurity has risen in importance given the volume and sophistication of cyberattacks. As organisations move more of their information assets online, the incentive for criminals to access them increases, as does the financial and reputational cost of a breach.

The acceleration of the shift to remote working has significantly increased the cyber threat faced by organisations as the number of potential attack surfaces has dramatically grown. Devices and data have been moved outside of the relative safety of an organisation's networks, making them more vulnerable to unauthorised access and theft.

Partners

Increased importance of CloudCoCo as a partner

During FY20, CloudCoCo rationalised its partner base within the four main technology areas. The rationalisation clarified CloudCoCo's customer offering but also created scale with its suppliers and therefore increased the importance of CloudCoCo as a partner.

CloudCoCo's strategic partners are Microsoft (Microsoft Azure, 365 and Teams) and Fortinet (dynamic cloud security) and other technology partners include Zen and Gamma (connectivity), Mitel (cloud-based communications), Lenovo (hardware), THG (hosting), Anywhere365 (contact centre software), Nyotron and Mimecast (cybersecurity) but the company can reach out to a much wider network of partners as necessary. CloudCoCo also works with the major UK hardware distributors.

Differentiators: partner ecosystem, fast response times and first-class levels of customer support

The company differentiates itself through the range of technology it can offer through its ecosystem of partners, fast response times and first-class levels of customer support. Its asset light business model also affords it greater flexibility than traditional services providers.

Exhibit 4: Selected partners

Source: Company; Allenby Capital

CloudCoCo works closely with its partners. For example, during the pandemic it launched the Secure Global Learning Access (SGLA) platform in conjunction with Fortinet and global carrier partners to enable UK educational establishments to deliver unrestricted online tuition to international students. CloudCoCo was named one of the four companies capable of supplying the solution across the Jisc Global Education Access Framework and the preferred supplier under the Global lot.

With Microsoft, CloudCoCo further developed outgoing call management within Teams, and with Anywhere365 to add call centre capabilities to Teams. The company has launched an online marketplace presence with AWS to distribute Fortinet products and is also one of the very first THG (The Hut Group plc) hosting partners in the UK.

Interim results

Trading EBITDA +435%

CloudCoCo's recent H1 results to March 2021 represented the third positive data point since the arrival of the new management team in October 2019. Trading EBITDA for the six months to March 2021 increased 435% to £364k (H1 FY20: £68k, H2 FY20: £193k) with group revenue and total contract value increasing over H2 FY20 in spite of the continued effects of the pandemic on its end markets.

H1 FY21 revenue +16.9% on H2 FY20

H1 revenue (£4.1m) was down 6.5% on H1 FY20 but the comparator period was before the start of the pandemic and H1 FY21 revenue increased 16.9% on H2 FY20. Value Added Resale revenue was consistent at £1.2m and Managed IT Services was down 9.7% to £2.9m as customers remained cautious in committing to long term investments and there continued to be some restrictions on site access.

Exhibit 5: Revenue progression

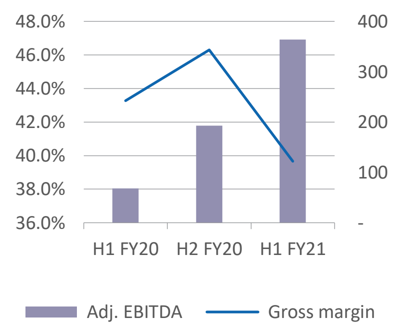
Revenue	H1 FY20	H2 FY20	H1 FY21
Managed IT Services	3,222	2,909	2,910
Value Added Resale	1,208	631	1,234
Total	**4,430**	**3,540**	**4,144**

Source: Company; Allenby Capital

In Managed IT Services, Vantage Motor Group and Baywater Healthcare, two of CloudCoCo's largest customers by deal value, renewed contracts on a multi-year basis during H1. The company also re-signed a UK university on a long-term deal and a secured a large professional services order with a major UK educational institution to migrate 70,000 users from Skype to Teams and integrate the existing PBX telephone system.

In Value Added Resale, demand for collaboration and cyber security products remained strong, reflecting the rise in remote working. Contract wins included a leading law firm and a major English council to support their transition to home working through the delivery of IT hardware and telephony solutions. boohoo Group plc, a customer win in FY20, continued to grow the breadth and depth of the cyber security products and services taken as the company expands.

Exhibit 6: Gross margin and adj. EBITDA (£000s)



Source: Company; Allenby Capital

The change in the revenue mix resulted in a lower gross margin at 39.7% (H1 FY20: 43.3%; FY20: 42.9%) but in spite of this and lower revenue, trading EBITDA increased £0.3m to £0.4m. This reflected the substantial cost reductions management undertook in FY20 and operating costs (pre plc costs, exceptional items and share based payments) reduced 30.7% to £1.3m and were in line with H2 FY20. Pre-tax loss of £0.7m (H1 FY20: £1.6m) included £0.5m of non-cash items.

CloudCoCo's cash position also improved with cash at bank increasing £0.3m to £0.6m (H1 FY20: £0.3m; FY20: £0.6m) and £0.4m of the £0.5m working capital facility remained undrawn. Increased contract liabilities (£1.2m; FY20: £0.9m) reflect longer term contract revenue billed in advance. Net debt increased £0.3m, reflecting the accrued interest on the £3.5m of outstanding loan notes and the £50k COVID-19 Bounce-back loan. CloudCoCo remains asset light and H1 capex was only £17k (FY20: £37k).

CloudCoCo has taken advantage of other government schemes around COVID-19. Other Income of £46k (FY20: £97k) relates to receipts received under the Coronavirus Job Retention Scheme and the company has deferred payment of c. £0.2m of VAT that is included in Current Liabilities.

Proposed fund raising and acquisition

CloudCoCo has raised, subject to GM, £2.1m at 1p/share. Of this, £0.8m (net) will be used to fund the acquisitions of Systems Assurance Ltd (www.systemsassurance.com) and More Computers Ltd (www.morecomputers.com). The balance will be used on deal costs, the integration of the acquisition, strengthening the balance sheet and additional working capital.

Systems Assurance

Systems Assurance has a well-established commercial/procurement/ecommerce engine that enables B2B customers to search and source hardware and software products from a large number of vendors. It offers customers a real time, live marketplace with the ability for the monitoring of orders, faster delivery and uses price intelligence to monitor competitor pricing. Hardware sales include Microsoft, HP, Cisco, Dell, Lenovo and Apple and cloud software subscriptions for Microsoft Office 365, Dynamics and Azure. Accreditations include IBM Preferred Reseller, HPE Authorised Reseller and Cisco Certified Partner.

The VAR business accounted for c. 80% of FY20's £4m revenue with29% from recurring software subscriptions with the opportunity to upsell further.

Systems Assurance also offers a range of MSP services (cloud migrations, infrastructure services, maintenance and support, professional services and software asset management). It is certified as a Microsoft Gold Partner. MSP accounts for c. 20% of its revenue

More Computers

More Computers is a B2C e-commerce platform and provides consumers with live access to more than a million products (computer equipment, consumer electronics and gaming equipment) through its own websites as well as marketplaces such as Amazon and eBay. The B2C business had revenue of c. £2m in FY20.

The acquisition will improve the customer experience in CloudCoCo's enlarged Value Added Resale business but also the backend integration platform and associated software developers will enable CloudCoCo to further automate its processes in Managed IT Services.

The consideration is £0.8m in cash (net) and 6m performance-based warrants at 1.5p/share. The acquisition had net cash of £0.8m at the time of acquisition. In FY20, the company achieved adjusted EBITDA of £0.2m on c. £6m in revenue.

Following the initial restructuring, the annualised revenue of the enlarged group should be c. £14m (60% recurring) and a blended trading EBITDA margin of 8% to 9%. The enlarged group will have c.650 customers with considerable cross/up sell opportunities. There are some common suppliers across the two companies and this should enable CloudCoCo to secure better terms. Management has identified initial cost synergies of c. £0.1m per annum and duplicate roles either saved or re-deployed into revenue generating activities.

History

On 21 October 2019, adept4 plc acquired the entire share capital of CloudCoCo Limited. The consideration for the acquisition was satisfied through the issue of 218.2m shares that represented c. 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 £7.2m at completion.

On completion of the acquisition, a number of actions were taken to refinance the Group:

- £1.5m of the £5.0m loan notes held by the Business Growth Fund ("BGF") were waived and cancelled by BGF, reducing the Company's liability to £3.5m.
- MXC Guernsey Limited ("MXCG"), a wholly owned subsidiary of MXC Capital Limited ("MXC"), which currently holds 15.2% of the shares in the Company, purchased the remaining £3.5m loan notes from BGF.
- The terms of the loan notes were restructured to carry a coupon of 12%, compounded per annum, rolled up and payable only at the end of the term.
- The term of the loan notes was extended to October 2024 with no repayment due until that date, unless CloudCoCo chooses to repay early.
- At the same time, MXCG extended a £0.5m, 2-year, working capital facility to the Company with interest charged at a rate of 12% per annum on amounts drawn down. This facility currently sits at £0.1m and repayment has subsequently been extended by six months to April 2022.
- MXC cancelled the warrants it held over 5% of the then issued and to be issued share capital of the Company.
- BGF's 50m options were repriced to 0.35p/share and BGF exercised all of its options in October 2019 and sold the resulting shares.

On 29 November 2019, the company's name was changed from adept4 plc to CloudCoCo Group plc and the company operates from offices in Warrington and Leeds.

CloudCoCo Limited started trading in April 2018 and was formed by the former sales directors of Redcentric plc (RCN.L) and offered a variety of cloud computing services, IT hardware, managed IT services, voice and connectivity solutions via its partner ecosystem and providing its customers with a simplified approach to IT services. MXC Capital was an early investor in both CloudCoCo Ltd and adept4.

adept4 had struggled prior to the arrival of the CloudCoCo management team given the general level of economic uncertainty coupled with failure of a new sales team to deliver. Continued delays in new sales in FY19 led to monthly EBITDA and cash losses and the decision was taken to focus on its existing customer base with less emphasis on new business acquisition to protect its cash resources. Whilst this led to reduced revenue and gross profit, the new model required a significantly lower operating cost base and a cost reduction programme was completed in March 2019. Performance was further impacted by the loss of a major customer (£0.7m revenue in FY18) in April 2019.

Board & Management

Simon Duckworth, OBE DL, Non-Executive Chairman

Simon holds a number of non-executive positions in the public and private sectors and is currently Chairman of Barings Targeted Return Fund and a Non-Executive Director of the Association of Police and Crime Commissioners. He was a Non-Executive Director of Fidelity's flagship European Investment Trust, Fidelity European Values plc, for a decade, and has sat on the boards of a number of AIM-quoted companies as a non-executive director, including Accumuli plc from 2010 until its sale to NCC plc in 2015.

A University of Cambridge graduate, Simon is a former Chairman of the City of London Police Authority, chaired the Economic Crime Board of the City of London Police and was the Senior Non-Executive Board Member at the Serious Fraud Office until December 2019.

Mark Halpin, Chief Executive Officer

Mark Halpin has 16 years of experience working in the technology sector with a focus on driving new business and sales growth. His career started at Redcentric plc in 2004 where he spent 14 years in the sales team, becoming new business sales director in 2008 responsible for all new business acquisition and, from 2015, focusing on the development of its government and healthcare activities. In 2018, Mark left Redcentric and co-founded CloudCoCo Limited. Initially Mark was Managing Director of the enlarged group and joined the Board as CEO on 31 March 2020.

Darron Giddens, Chief Financial Officer

Darron, previously Group Finance Director, replaced Mike Lacey as CFO in June 2021. Darron has been with the Group since 2009, having previously been at Trust House Forte Group, Boston Consulting Group and IDN Telecom Plc and has 25 years' experience as a Finance Director in the IT/Telecoms sector. He qualified as a Chartered Management Accountant with Gan Life & Pensions plc and holds an MBA from Aston University.

Andy Mills, Non-Executive Director

Andy has managed and helped to grow numerous technology businesses over the past 25 years. Andy co-founded Intrinsic Networks which he sold to a buy and build IT services company and has held a number of senior leadership positions. He has worked successfully in the technology industry as sales director and managing director and was the sales director of Tax Systems plc which was acquired in 2019 by a PE company. Andy was the chairman of CloudCoCo Limited at the time of the acquisition by adept4 and was initially CEO of the enlarged group.

Jill Colligham, Non-Executive Director

A Chartered Certified Accountant, Jill has more than 18 years of operational experience at plc board level specialising in finance, human resources, investor relations and corporate finance. As well as her role with CloudCoCo, Jill is CFO of MXC Capital Limited, the technology-focused adviser and investor. From 2004 to 2014, Jill was CFO of the AIM-quoted mobile technology provider 2ergo Group plc. Until January 2020, Jill also undertook the role of Chief Financial Officer of the Group.

Nigel Redwood, Strategic Consultant

Nigel, former CEO of AIM-listed Nasstar Plc, appointed as Strategic Consultant (a non-board position) in line with the Board's decision to begin reviewing options to scale the business. He has more than 20 years' experience working with PE-backed/public business and spent a year as a chairman of two PE-backed businesses. At Nasstar, Nigel took business from being loss-making on revenue of £2.5m to making an EBITDA profit of £6.4m on revenue of £26.1m driven by the acquisition of four companies. He will assist with regular consultation on the company's organic growth initiatives and people strategies as well as in the appraisal of potential acquisition targets.

Financials

CloudCoCo reports on the basis of two divisions: Managed IT Services and Value Added Resale (VAR); and the proposed acquisition will slot easily into this reporting structure.

H2 revenue and gross profit is typically lower than H1 in the current CloudCoCo business. This is mainly a function of CloudCoCo's Public Sector customers undertaking capital projects during H1 in the run up to their March financial year ends that benefits the VAR division. Meanwhile the summer holidays tend to have an impact on professional services in the Managed IT Services division in H2.

As a result, our forecasts assume a growth of 9.8% in revenue in H2 FY21 over H2 FY20 and by 5% in gross profit, reflecting a greater contribution from the lower margin VAR division with revenue consistent with H1 and a recovery against the drop in H2 FY20. Management points to increased spending on infrastructure and office upgrades as employees start to return to office based working. As a result, the contract value of sales orders won in FY21 is projected to be up 7% on the FY20 figure of £5.2m, in spite of the COVID-19 impact. In addition, the current pipeline of sales opportunities in progress has a Total Contract Value of £4.7m with an average contract length of 1.7 years (FY20:1.2 years).

CloudCoCo undertook a significant reduction in operating costs during FY20 and the benefits of this were apparent in H1 with operating costs down 37.7% on H1 FY20 to £2.0m and we expect a similar level of costs in H2. Trading EBITDA (that excludes plc costs, share based payments and one-off costs) in H1 increased £0.3m to £0.4m and we expect a similar level in H2.

The addition of the acquired businesses will impact the gross margin of the enlarged group given the weighting towards VAR. That said, the current CloudCoCo VAR division will benefit from the acquisition's multiple partnerships. Access to the target's EDI e-commerce platform will increase the efficiency of its VAR division, other products can be added and the platform is highly scalable. CloudCoCo will also be able to sell services into the target's customer base.

Exhibit 7: Summary income statement

Income statement					
Year End September (£000s)	**FY 2019A**	**FY2020A**	**FY2021E**	**FY2022E**	**FY2023E**
Revenue	**7,257**	**7,970**	**8,031**	**14,988**	**16,458**
YoY Growth	*NA*	*9.8%*	*0.8%*	*86.6%*	*9.8%*
Cost of sales	(3,530)	(4,554)	(4,832)	(11,002)	(12,017)
Gross profit	3,727	3,416	3,199	3,986	4,441
Gross margin	*51%*	*42.9%*	*39.8%*	*26.6%*	*27.0%*
Other income	0	97	46	-	-
Administrative expenses	(8,716)	(5,963)	(4,144)	(4,732)	(4,746)
Total operating expenses	**(8,716)**	**(5,866)**	**(4,098)**	**(4,732)**	**(4,746)**
YoY growth		*-33%*	*-30%*	*15%*	*0%*
Operating (loss)/Profit before exceptional Items	**(1,242)**	**(1,475)**	**(348)**	**(13)**	**252**
Exceptional items	(3,255)	(540)	(41)	(200)	-
Operating (Loss)/Profit	**(4,989)**	**(2,450)**	**(899)**	**(746)**	**(305)**
Amortisation	(907)	(1,623)	(1,000)	(1,035)	(1,035)
Depreciation	(100)	(113)	(100)	(100)	(100)
Trading Group EBITDA	**(235)**	**261**	**752**	**1,122**	**1,387**
Trading EBITDA margin	*-3%*	*3%*	9%	7%	8%
Plc costs	(421)	(461)	(460)	(483)	(507)
Reported EBITDA	**(3,982)**	**(714)**	**292**	**639**	**880**
Net interest	(599)	(517)	(559)	(467)	(463)
Adj. profit before tax	**(1,841)**	**(1,992)**	**(907)**	**(480)**	**(211)**
PBT margin	NEG	NEG	NEG	NEG	NEG
Profit before tax (reported)	(5,588)	(2,967)	(1,458)	(1,213)	(768)
Tax	438	288	100	100	100
Profit after tax from continuing operations (adj.)	(1,403)	(1,704)	(807)	(380)	(111)
PAT margin	*NEG*	*NEG*	*NEG*	*NEG*	*NEG*
Profit after tax from continuing operations (reported)	(5,150)	(2,679)	(1,358)	(1,113)	(668)
PAT margin	*NEG*	*NEG*	*NEG*	*NEG*	*NEG*
Loss for the year	(5,150)	(2,679)	(1,358)	(1,113)	(668)
Shares in issue (basic)	227,065	478,427	705,226	705,226	705,226
Earnings per share (basic) (p)	(2.27)	(0.56)	(0.27)	(0.16)	(0.09)
Earnings per share (diluted) (p)	(2.27)	(0.56)	(0.27)	(0.16)	(0.09)
Adj. earnings per share (p)	(0.62)	(0.36)	(0.16)	(0.05)	(0.02)
EV/Sales (x)	1.9	1.6	1.5	0.8	0.7
EV/Trading EBITDA (x)	(57.4)	47.9	16.2	10.8	8.4

Source: Company; Allenby Capital. Assumes £2.1m placing and acquisition

Exhibit 8: Summary balance sheet

Balance sheet					
Year End September (£000s)	**FY 2019A**	**FY2020A**	**FY2021E**	**FY2022E**	**FY2023E**
ASSETS					
Non-current assets					
Intangible assets	4,394	10,359	10,349	9,314	8,279
Property, plant and equipment	62	221	146	133	136
Total non-current assets	**4,456**	**10,580**	**10,495**	**9,447**	**8,415**
Current assets					
Inventories	32	31	71	85	98
Trade and other receivables	1,489	1,856	2,775	3,222	3,133
Cash and cash equivalents	311	588	1,416	1,303	1,821
Total current assets	**1,832**	**2,475**	**4,262**	**4,610**	**5,053**
TOTAL ASSETS	**6,288**	**13,055**	**14,757**	**14,057**	**13,468**
LIABILITIES					
Current liabilities					
Trade and other payables	(1,664)	(2,465)	(2,710)	(3,180)	(3,267)
Contract liabilities	(513)	(565)	(969)	(998)	(1,028)
Borrowings	-	(104)	(109)	(17)	(24)
Finance leases	(32)	(122)	(78)	(51)	(33)
Total current liabilities	**(2,209)**	**(3,256)**	**(3,866)**	**(4,246)**	**(4,352)**
Net current liabilities	**(377)**	**(781)**	**396**	**364**	**700**
Non-current liabilities			-	-	-
Borrowings	(4,270)	(3,458)	(3,942)	(3,925)	(3,876)
Finance leases	(16)	(61)	(33)	(99)	(66)
Deferred tax liability	(810)	(940)	(998)	(898)	(798)
Total non-current liabilities	**(5,190)**	**(4,823)**	**(5,208)**	**(5,164)**	**(4,997)**
TOTAL LIABILITIES	**(7,399)**	**(8,079)**	**(9,074)**	**(9,410)**	**(9,349)**
NET ASSETS	**(1,111)**	**4,976**	**5,683**	**4,647**	**4,118**

Source: Company; Allenby Capital. Assumes £2.1m placing and acquisition

Exhibit 9: Summary cashflow

Cashflow statement					
Year End September (£000s)	**FY 2019A**	**FY2020A**	**FY2021E**	**FY2022E**	**FY2023E**
Loss before taxation	(5,588)	(2,967)	(1,458)	(1,213)	(768)
Adjustments for:					
Amortisation	907	1,623	1,000	1,035	1,035
Depreciation	100	113	100	100	100
Costs relating to acquisition of CloudCoCo Ltd	-	435	-	-	-
Share-based payment charge/(credit)	71	(26)	50	50	50
Operating profit before movements in working capital	**(290)**	**(305)**	**251**	**439**	**880**
(Increase)/decrease in inventories	(6)	1	(40)	(14)	(13)
Decrease / (increase) in trade and other receivables	811	(65)	(824)	(447)	88
Increase / (decrease) in trade and other payables	(1,045)	866	520	506	132
Cash flow from operations before acquisition costs	(530)	497	**(93)**	**484**	**1,088**
Costs relating to acquisition of CloudCoCo Ltd	-	(435)	-	-	-
Net cash flow from operations	**(530)**	**62**	**(93)**	**484**	**1,088**
Cash flows from investing			-	-	-
Acquisition of property, plant and equipment	(16)	(37)	(25)	(87)	(90)
Acquisition of CloudCoCo net of cash	-	157	-	-	-
Acquisition of Systems Assurance net of cash	-	-	(834)	-	-
Interest received	3	1	-	-	-
Net cash flow from investing activities	**(53)**	**121**	**(859)**	**(87)**	**(90)**
Cash flow from financing activities			-	-	-
Proceeds of placing (net)	-	-	2,000	-	-
Receipt/repayment of loan from MXCG	-	100	-	-	-
Receipt/repayment of COVID-19 Bounce Back Loan	-	50	-	(20)	(20)
Repayment of debt	-	-	-	(250)	(250)
Payment of lease liabilities	(30)	(183)	(200)	(240)	(210)
Interest paid	(403)	(48)	(20)	-	-
Net cash flow from financing activities	**(433)**	**94**	**1,780**	**(510)**	**(480)**
Net increase / (decrease) in cash and cash equivalents	**(1,116)**	**277**	**828**	**(113)**	**518**
Cash and cash equivalents at beginning of period	**1,427**	**311**	**588**	**1,416**	**1,303**
Cash and cash equivalents at end of period	**311**	**588**	**1,416**	**1,303**	**1,821**
Net cash	**(3,959)**	**(2,974)**	**(2,635)**	**(2,639)**	**(2,079)**

Source: Company; Allenby Capital. Assumes £2.1m placing and acquisition

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