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FINAL NOTICE

To: Redcentric PLC

Date: 26 June 2020

1. ACTION

1.1. For the reasons given in this Final Notice, the Authority hereby publishes a public censure in respect of Redcentric PLC (“Redcentric”) pursuant to section 123(3) of the Act.

1.2. Redcentric agreed to resolve this matter.

2. SUMMARY OF REASONS

2.1. The Authority has found that Redcentric committed market abuse by publishing false information about its net debt and holdings of cash and cash equivalents in November 2015 and June 2016.

2.2. On 9 November 2015 Redcentric published its unaudited interim results for the half year ending 30 September 2015 (the 9 November 2015 Statement). These stated that net bank debt was "£16.5m" and that cash and cash equivalents were £9,984,000.

2.3. On 16 June 2016 Redcentric published its audited financial year end results for the year to 31 March 2016 (the 16 June 2016 Statement). These stated that it had "Total net borrowings of £25.3m" and that cash and cash equivalents were £8,492,000.

2.4. On 7 November 2016 Redcentric announced that its audit committee had undertaken an internal review of Redcentric's interim results for the 6 months ending September 2016, which had discovered misstated accounting balances in the Group's balance sheet and that as a result its audited accounts for previous years were likely to need to be restated. Redcentric stated in this announcement that its Board had commenced a forensic review of its current and historic balance sheets and would delay publication of its interim results.

2.5. On 13 December 2016 Redcentric announced the initial findings from its independent forensic review and remedial action plan. It stated that the forensic review and management's initial findings included:

(1) The cumulative overstatement of net assets and profits after tax up to 30 September 2016 was approximately £20.8 million. Approximately £5.9 million of this misstatement arose in the six months ended 30 September 2016; and

(2) The net debt position as at 31 March 2016 was £37.8 million and as at 30 September 2016 net debt was £34.4 million.

2.6. The Authority has undertaken its own analysis of Redcentric's net debt and cash and cash equivalents. It has concluded that the true position was as follows:

(1) As at 30 September 2015, Redcentric's net debt was approximately £29,545,000 and its cash and cash equivalents were negative £3,061,000;

(2) As at 31 March 2016, Redcentric's net debt was £37,455,000 and its cash and cash equivalents were negative £3,633,000.

2.7. The Authority has found that Redcentric knew, or could reasonably have been expected to know, that the information about its net debt and cash and cash equivalents published in its 9 November 2015 Statement and its 16 June 2016

Statement was false and misleading, and that it gave, or was likely to give, a false or misleading impression as to the value of its shares.

- 2.8. The 9 November 2015 Statement and 16 June 2016 Statement each caused Redcentric's shares to trade at a higher value than they should have done. They continued to do so until Redcentric's announcement of 7 November 2016.
- 2.9. Purchasers of Redcentric's shares during this period paid a higher price than they would have paid if the 9 November 2015 Statement and 16 June 2016 Statement had been accurate. Accordingly, those who purchased more of Redcentric's shares than they sold in this period suffered loss.
- 2.10. Redcentric has co-operated with the Authority during its investigation and has taken extensive steps to remedy its failings. Those steps include commissioning an independent review immediately upon discovering the issues, proactively offering some information to the Authority, and making improvements to its systems and controls which had clearly not been effective to prevent the deliberate misconduct in this case. In addition, the Authority welcomes Redcentric's acceptance that it should take such steps as it reasonably can to compensate investors who suffered loss as a result of Redcentric's incorrect statements.
- 2.11. Redcentric has implemented a scheme to provide compensation to those purchasers of Redcentric's shares who suffered losses as a result of the market abuse described above. The Authority is satisfied that Redcentric has taken reasonable steps to provide the compensation that it reasonably can provide in the circumstances. The Authority is also satisfied that it is preferable for Redcentric to use its resources providing compensation in this way, rather than to impose a penalty which would risk causing disruption to Redcentric's business, and therefore to its customers. In the unique circumstances of this case, the balance of public interest is against the issue of a penalty.
- 2.12. Given these matters, the Authority has decided that it is appropriate to impose a public censure rather than a substantial fine. Accordingly, the Authority publishes the censure set out in this notice pursuant to section 123(3) of the Act.

3. DEFINITIONS

- 3.1. The definitions below are used in this Notice:

“the 9 November 2015 Statement” means the announcement dated 9 November 2015 by Redcentric of its unaudited interim results for the six months ending 30 September 2015;

“the 16 June 2016 Statement” means the announcement dated 16 June 2016 by Redcentric of its audited results for the year ended 31 March 2016;

“the Act” means the Financial Services and Markets Act 2000;

“AIM” means the Alternative Investment Market of the London Stock Exchange;

“the Authority” means the Financial Conduct Authority;

“DEPP” means the Decision Procedure and Penalties Manual, part of the Authority’s Handbook of Rules and Guidance;

“EG” means the Authority’s Enforcement Guide;

“Redcentric” means Redcentric PLC;

“Redcentric’s shares” means Redcentric’s publicly tradeable shares listed on AIM;

“the Regulations” means the Financial Services and Markets Act 2000 (Market Abuse) Regulations 2005

“the Relevant Period” means the period from 9 November 2015 to 7 November 2016

“RNS” – the Regulatory News Service operated by the London Stock Exchange

4. FACTS AND MATTERS

Background

4.1. Redcentric is an AIM listed IT managed services firm based in Harrogate, Yorkshire.

9 November 2015 Statement

4.2. On 9 November 2015 Redcentric made the 9 November 2015 Statement, in which it published its unaudited interim results for the six months ending 30 September 2015. The “Highlights” section included the statement: “Net bank debt £16.5m”. That figure

was repeated under the heading "Financial position and dividend", which stated "Following the acquisition of Calyx and the securing of new bank facilities in April 2015, net bank debt has increased to £16.5m", and the figure appeared again under the heading "Cash flow and funding".

4.3. The 9 November 2015 Statement also reported that cash and cash equivalents at the end of the period (i.e. at 30 September 2015) were £9,984,000.

4.4. The Authority has found that Redcentric knew or ought to have known that its net bank debt position was in fact approximately £29,545,000, and its cash and cash equivalents were negative £3,061,000. It had therefore over-stated its cash and cash equivalents by approximately £13,045,000, and under-stated its net bank debt by the same amount.

4.5. By understating Redcentric's net bank debt position in this way and over-stating its cash and cash equivalents, the information in the 9 November 2015 Statement gave a false and misleading impression as to the value of Redcentric's shares.

16 June 2016 Statement

4.6. On 16 June 2016 Redcentric made the 16 June 2016 Statement in which it published its audited results for the year ended 31 March 2016. The "Highlights" section included the statement: "Total net borrowings of £25.3m". This figure was repeated in the body of the announcement under the heading "Cash-flow", where it stated: "As at 31 March 2016, the Group had net debt of £25.3m...".

4.7. The 16 June 2016 Statement also stated that "Cash and cash equivalents at end of year" were £8,492,000.

4.8. The Authority has found that Redcentric knew or ought to have known that its net debt position was approximately £37,455,000 and its cash and cash equivalents stood at a negative value of £3,663,000. It had therefore over-stated its cash and cash equivalents by approximately £12,155,000, and under-stated its net debt position by the same amount.

4.9. By understating Redcentric's net debt and over-stating its cash and cash equivalents in this way, the information in the 16 June 2016 Statement gave a false and misleading impression as to the value of Redcentric's shares.

Revelation of True Position

4.10. On 7 November 2016 Redcentric announced that an internal review by its audit committee in relation to the (as yet unpublished) interim results for the 6 months ended 30 September 2016 had discovered misstated accounting balances in the Group's balance sheet. It stated that its Board had commenced a forensic review of the Group's current and historic balance sheets, which would delay publication of its interim results. It noted that the work to date had identified that audited accounts for previous years were likely to need to be restated, resulting in some write down in historic profits. It went on to explain that the Board believed from the information available to date that the impact of correcting these cumulative historic accounting misstatements would result in a need to reduce net assets by at least £10 million, and that the net debt guidance previously given was now believed to be unreliable. The Board said that it now believed that net debt at the half year was approximately £30 million, and that the underlying net debt position at 31 March 2016 was materially higher than as reported.

4.11. The price of Redcentric's shares fell by approximately 52% to 63.3p during the course of the day on 7 November 2016, although it recovered to 87p on 18 November 2016, which was a net fall of 42%.

4.12. Purchasers of Redcentric's shares during the period from 9 November 2015 to 7 November 2016 paid a higher price than they should have paid, as the price was higher than it should have been due to the false or misleading impressions created by the 9 November 2015 Statement and 16 June 2016 Statement. Those purchasers who had not sold those shares during this period, suffered a loss as a result of the fall in price.

Redress and Remediation

4.13. Since the announcement of the misstatements, Redcentric has taken a number of steps to remedy the failings which led to the misstatements. Redcentric appointed auditors to conduct a forensic review, which identified desirable improvements which have since been implemented by the Board.

- 4.14. Redcentric has initiated a scheme to provide some compensation to all net purchasers of Redcentric shares during the period from 9 November 2015 to 4 November 2016 (the latter being the last trading day before the announcement of 7 November 2016). Redcentric has told the Authority that it estimates the value of the scheme to potential claimants is £11.4 million and that each Claimant will have a basic entitlement to receive an overall value of approximately 17 pence for each net share purchased.
- 4.15. The approach of the Redcentric Board in proactively devising and implementing a scheme to offer some compensation to shareholders affected by the false market has been exemplary. Furthermore, the evidence and assistance provided by Redcentric has led to a timely conclusion of the FCA's enquiries and has been of critical assistance.

Further relevant matters

- 4.16. The Authority is of the view that in setting up the scheme Redcentric is taking such steps as it reasonably can to compensate investors who suffered loss as a result of Redcentric's market abuse.
- 4.17. The Authority also notes that Redcentric's customers include numerous NHS Trusts and that it provides vital services in respect of the Covid-19 pandemic. The Authority considers that the imposition of a penalty would give rise to a significant risk of disruption to Redcentric's business, which may cause significant disruption to those services.

5. FAILINGS

- 5.1. The regulatory provisions relevant to this Final Notice are referred to in Annex A.

The Relevant Securities were qualifying investments traded on a prescribed market

- 5.2. Redcentric's shares were admitted to trading on the Alternative Investment Market on the London Stock Exchange on 24 April 2013. Redcentric's shares are therefore "qualifying investments" admitted to trading on a "prescribed market" for the purposes of Article 10 of the Regulations. Accordingly, Redcentric's behaviour fell within section 118(1)(a)(i) of the Act. In addition, the provision of information by Redcentric and the publication of the 9 November 2015 Statement and 16 June 2016

Statement, both occurred in the UK, fulfilling the jurisdictional criteria set out at section 118A(1)(a) and section 118A(1)(b)(i) of the Act.

The information gave a false or misleading impression as to a qualifying investment

5.3. The information provided by Redcentric to the market in the 9 November 2015 Statement and 16 June 2016 Statement incorrectly overstated Redcentric's cash position and understated Redcentric's net debt position. As a result, the information gave a false or misleading impression as to Redcentric's shares.

The information was disseminated by persons who knew or could reasonably be expected to have known that it was false or misleading

5.4. The Authority has found that Redcentric knew, or could reasonably have been expected to know, that the information it disseminated to the market via the 9 November 2015 Statement and 16 June 2016 Statement was false and misleading.

Conclusion on Market Abuse

5.5. The Authority considers that the behaviour of Redcentric constituted market abuse contrary to section 118(7) of the Act.

5.6. Pursuant to section 123(1) of the Act, the Authority may therefore impose a penalty of such amount on Redcentric as it considers appropriate.

5.7. At the relevant time, Section 123(2) of the Act stated that the Authority may not impose a penalty for market abuse in certain circumstances. The Authority is satisfied that these circumstances do not apply to the conduct described in this notice.

5.8. Section 123(3) of the Act states that if the Authority is entitled to impose a penalty on a person it may, instead of imposing a penalty on him, publish a statement to the effect that he has engaged in market abuse.

6. SANCTION

Breach of Section 118(7) of the Act - Public Statement

6.1. The Authority publishes this Notice as a statement of Redcentric's misconduct pursuant to section 123(3) of the Act.

6.2. The Authority has had regard to the provisions of DEPP 6 regarding penalty. The Authority has also had regard to the provisions of Chapter 7 of the Enforcement Guide.

6.3. The Authority's policy for imposing a financial penalty or publishing a statement of misconduct is set out in Chapter 6 of DEPP. DEPP 6.4.1G states that the Authority will consider all the relevant circumstances of the case when deciding whether to impose a penalty or issue a public censure. In the particular circumstances of this case, which are unusual, the Authority does not consider it would be appropriate to impose a penalty. The Authority believes that its objectives may appropriately be achieved by means of a public censure.

6.4. In reaching this conclusion, the Authority has had regard to the following matters:

- (1) Redcentric benefitted financially from its market abuse, obtaining revenue from share options that it would not otherwise have received;
- (2) Redcentric's misconduct was serious such that ordinarily a substantial penalty would be justified;
- (3) the scheme instigated by Redcentric to provide compensation demonstrates Redcentric's commitment to do what it can to undo the harm that its misconduct caused to net purchasers of its shares;
- (4) Redcentric has provided valuable co-operation to the Authority in its investigation, and has taken extensive steps since the misconduct to ensure that similar misconduct will not occur in future;
- (5) the potential impact of imposing a penalty on Redcentric, and the wider public interest in avoiding disruption to the services provided by Redcentric to NHS Trusts and in respect of the Covid-19 pandemic; and
- (6) that it is preferable for Redcentric to provide such compensation as it can to net purchasers in accordance with the scheme it is setting up, rather than to risk disrupting Redcentric's business and the services it is providing to its customers at this time.

7. PROCEDURAL MATTERS

Decision maker

7.1. The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

7.2. This Notice is given under, and in accordance with, section 390 of the Act.

Publicity

7.3. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the Authority must publish such information about the matter to which this notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to the person with respect to whom the action was taken or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.

7.4. The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

Authority Contacts

7.5. For more information concerning this matter generally, contact Luke Stevens (direct line: 020 7066 6092) or Richard Littlechild (direct line: 020 7066 7146) of the Enforcement and Market Oversight Division of the Authority

Mario Theodosiou
Project Sponsor
Financial Conduct Authority, Enforcement and Market Oversight Division

ANNEX A: Relevant Statutory and Regulatory Provisions

STATUTORY PROVISIONS

1. The Authority's statutory objectives are set out in section 1B(3) of the Financial Services and Markets Act 2000 as amended by the Financial Services Act 2012 and include the integrity objective.

The following provisions are described as they were in force at the time of the relevant conduct described in this notice.

2. The Authority has the power under section 123(1) of the Act to impose a financial penalty where it is satisfied that a person has engaged in market abuse.
3. Section 118(1)(a) of the Act defines 'market abuse' as *"behaviour (whether by one person alone or by two or more persons jointly or in concert) which -*
 - (a) *occurs in relation to:*
 - (i) *qualifying investments admitted to trading on a prescribed market;*

...and
 - (b) *falls within any one or more of the types of behaviour set out in subsections (2) to (8)."*
4. Section 118(7) sets out the behaviour that will amount to the dissemination of false or misleading information:

"... where the behaviour consists of the dissemination of information by any means which gives, or is likely to give, a false or misleading impression as to a qualifying investment by a person who knew or could reasonably be expected to have known that the information was false or misleading."
5. Section 118A(1) states that behaviour is taken into account if it occurs:
 - (a) *in the United Kingdom, or*
 - (b) *in relation to-*
 - (i) *qualifying investments which are admitted to trading on a prescribed market situated in, or operating in, the United Kingdom ..."*
6. Section 123(2) of the Act provides a defence to the Authority imposing a penalty for market abuse:

"But the Authority may not impose a penalty on a person if ... there are reasonable grounds for it to be satisfied that -

(a) he believed, on reasonable grounds, that his behaviour did not fall within paragraph (a) or (b) of subsection (1), or

(b) he took all reasonable precautions and exercised all due diligence to avoid behaving in a way which fell within paragraph (a) or (b) of that subsection."

7. Section 123(3) of the Act provides the Authority with a power to issue a public statement:

"if the [Authority] is entitled to impose a penalty on a person under this section it may, instead of imposing a penalty on him, publish a statement to the effect that he has engaged in market abuse."

HANDBOOK PROVISIONS

Decision Procedures and Penalties manual ("DEPP")

8. Section 124 of the Act requires the Authority to issue a statement of policy with respect to the imposition of penalties for market abuse and the amount of such penalties. The Authority's policy in this regard is contained in Chapter 6 of DEPP as applicable from 6 March 2010. In deciding whether to exercise its power to impose a financial penalty under section 123 of the Act, the Authority must have regard to this statement.
9. DEPP 6.2 sets out a number of factors to be taken into account when the Authority decides to take action for a financial penalty. The factors are not exhaustive, but include the nature and seriousness of the suspected breach and the conduct of the person after the breach.
10. In deciding whether to exercise its power under section 123 of the Act in the case of any particular behaviour, the Authority must have regard to the statement of policy published under section 124 of the Act. In determining the penalty to be imposed on Redcentric, the Authority has had regard to DEPP 6.
11. DEPP 6.3 sets out factors which the Authority may take into account in determining whether the conditions in section 123(2) of the Act are met. Relevant factors include:

- (a) whether, and if so to what extent, the behaviour in question was or was not analogous to behaviour described in the Code of Market Conduct as amounting or not amounting to market abuse (DEPP 6.3.2(1)G);
 - (b) whether the Authority has published any guidance or other materials on the behaviour in question and if so, the extent to which the person sought to follow that guidance or take account of those materials. The Authority will consider the nature and accessibility of any guidance or other published materials when deciding whether it is relevant in this context and, if so, what weight should be given (DEPP 6.3.2(2)G);
 - (c) the level of knowledge, skill and experience to be expected of the person concerned (DEPP 6.3.2(4) G);
 - (d) whether, and if so to what extent, the person can demonstrate that the behaviour was engaged in for a legitimate purpose and in a proper way.
12. DEPP 6.4 sets out factors which the Authority may take into account in determining whether to impose a financial penalty or public censure. These factors include:
- (a) whether or not deterrence may be effectively achieved by issuing a public censure (DEPP 6.4.2(1)G);
 - (b) if the breach is more serious in nature or degree, this may be a factor in favour of a financial penalty, on the basis that the sanction should reflect the seriousness of the breach; other things being equal, the more serious the breach, the more likely the Authority is to impose a financial penalty (DEPP 6.4.2(3)G);
 - (c) if the person has admitted the breach and provides full and immediate cooperation to the Authority, and takes steps to ensure that those who have suffered loss due to the breach are fully compensated for those losses, this may be a factor in favour of a public censure, rather than a financial penalty, depending on the nature and seriousness of the breach (DEPP 6.4.2(5)G);
 - (d) the impact on the person concerned. It would only be in an exceptional case that the FCA would be prepared to agree to issue a public censure rather than impose a financial penalty if a financial penalty would otherwise be the appropriate sanction (DEPP 6.4.2(8)G).