

Proactis Holdings PLC

Final Results

Proactis Holdings PLC, the business spend management solution provider, today announces its audited results for the financial year ended 31 July 2020.

Financial highlights:

- Record year in new business total contract value ("TCV") signed up 29% to £14.6m (2019: £11.3m)
- Annualised recurring revenue ("ARR"), excluding heightened risk accounts ("HRAs"), increased by 1.3% to £39.8m (31 July 2019: £39.3m)
- Excluding the impact of the COVID-19 global pandemic ("COVID-19") on volume-related contracts, underlying ARR grew by 8.0%
- ARR including HRAs was £41.2m (2019: £44.3m)
- Reported revenues of £49.6m (2019: £54.1m) reflective of prior year new business / churn performance
- Adjusted EBITDA of £11.8m (2019: £15.1m), in line with market expectations
- Adjusted EPS 2.9p (2019: 6.6p)
- Impairment of £14.8m taken against French and German Cash Generating Units ("CGUs") as a result of changes in the Group's reporting structure and in the US CGU as a result of the impact of COVID-19 in volume related businesses.
- Reported loss before tax £19.3m (2019: £25.8m)
- Net bank debt of £37.1m (31 January 2020: £35.6m)
- Reset banking facilities with HSBC in order to support the Group's current business plan for the mid-term

Post period end highlights:

- Strategic new business wins in DE and FR
- Early adopters identified for bePayd platform

Tim Sykes, CEO commented:

"Despite the challenging macro-economic environment, we have executed our strategy well as we drive the Group toward a return to growth in FY21 and beyond. Our strategy is to replicate the go-to-market strategy of the UK and Netherlands in each of the US, France and Germany and we have made substantial headway with first sales of our mid-market single platform solution in Germany and France.

Although we are encouraged by the progress that we have made, we are also mindful of the impact of COVID-19 which is slowing the rate of commercial progress – whilst our pipeline is strong, demand continues to be marginally subdued through this period and sales processes are more challenging because of competing priorities. Despite these challenging market conditions, we are prudently managing our costs such that the Board continues to expect to meet our earnings forecast for FY21.

Notwithstanding this, the Group's new business performance is encouraging and combined with our return to organic growth in underlying ARR are material indicators of our progress. Our business has proved to be robust through this extraordinary period and our pipeline and forward revenue visibility positions us well for the future. We're in an exciting growth market and are poised to accelerate our growth, earnings and cash flow over the coming years."

This announcement contains inside information for the purposes of article 7 of Regulation 596/2014

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Notes to Editors:

Proactis creates, sells and maintains software and services which enable organisations to streamline, control and monitor all indirect expenditure. Its solutions are used in approximately 1,100 buying organisations around the world from the commercial, public and not-for-profit sectors.

Strategic report

Notwithstanding the impact of the COVID-19 global pandemic ("COVID-19"), the transformation of the business is firmly on track and is progressing as the Board had hoped and expected. The work that the Group undertook in the prior year to set the business up for a return to growth is coming into fruition and the early indicators are positive, with the transition to replicate the go-to-market strategy of the UK and Netherlands in each of the US, France and Germany territories, and the associated changes made to team structures, now starting to gain traction.

Demonstrating the effectiveness of its strategy, the resilience of the business model and the ability of the Group's teams to deliver despite a change in working practices, the business has delivered a record year in Total Contract Value ("TCV") wins with increases secured in virtually all markets.

Whilst the pipeline is strong and the Group's performance has been very encouraging, there is no doubt that COVID-19 has had an impact on sales processes – without this the Board is confident that pipeline conversion would have been even stronger. The Group is well-positioned to continue to capitalise on the opportunities available to it and expects to make further progress in growing the rate of new business intake.

Strategic overview

The Group's long-term strategy is to build an international business focused on delivering best value to its customers through the digital transformation of their procurement systems and processes with the application of the Group's software technology and provision of its expert services. The Group's strategy can be illustrated as follows:

- Maximise customer and technology opportunity
- Accelerate new business spend management momentum
- Roll out bePayd
- Drive adoption of existing supplier paid products
- Extend supplier paid product portfolio

This strategy is designed to deliver a strong financial proposition of profitable, cash generative organic growth with a high level of visibility illustrated by its annual recurring revenue ("ARR") across both buyer and supplier paid products, as defined in the additional information at the end of this document.

The Group aims to drive organic growth into its business spend management solutions by retaining existing and winning new customers through continually improving its best in class procurement solutions with high service levels and excellent user support as well as a focused approach to the up-selling of the Group's extensive range of solutions, creating even broader and deeper customer relationships.

In addition, the Group has a substantial opportunity to provide complementary products which leverage the business spend management solutions with transactional services, tender services and the Group's accelerated payment facility, bePayd.

Strategic performance

Progress against the Group's new strategy has been encouraging with performance in line with Board and market expectations for the year despite the emergence of COVID-19 during the period, demonstrating the resilience of the Group's business model.

TCV of new business signed was strong increasing to £14.6m (2019: £11.3m) – a record high – reflecting the Group's investment in its marketing, sales and account management capabilities and its new go-to-market strategy. Whilst new business deal intake was very pleasing, the performance was undoubtedly impacted by the outbreak of COVID-19 on customer buying and implementation decisions.

The Group's reported revenues decreased to £49.6m (2019: £54.1m). This reduction in revenue is primarily due to:

- net customer losses in the prior year (net £4.7m churn in the year ended 31 July 2019), which, as a consequence of the SaaS based subscription model that the business operates, flows through to the current year income statement; and
- the impact from COVID-19 on the Group's implementation services revenues and volume-based subscription contracts, which the Board expects to normalise following the end of the pandemic.

The reduced level of travel and expense and deferred investment in further marketing and sales capacity enabled the Group to maintain its margins and report Group Adjusted EBITDA (See additional information at the end of this document) of £11.8m (2019: £15.1m), in line with market expectations and demonstrating the robustness of the Group's business model and the agility of its decision-making. Further, the Group Adjusted Free Cash Flow was £0.9m (2019: £6.9m). The Board considers this financial performance to be in line with expectations and positions the Group well to continue to capitalise on the opportunities available to it.

Reported EBITDA of £9.0m and Loss Before Tax of £19.3m is shown further within the Financial Review.

Goodwill impairment testing resulted in the need to impair goodwill in the US, France and Germany Cash Generating Units ("CGU") by the amount of £14.8m. The impairment in France and Germany partly resulted from a change in CGU reporting / measurement aligned to better report on the business. All three CGUs were also impacted from COVID-19 which delayed pipeline conversion and slowed volume related businesses during the period under review. All other CGUs showed headroom in these calculations. This is further analysed in the Financial Review.

Analysis of the non-core net expenditure and the definition of Group Adjusted EBITDA and Group Adjusted Free Cash Flow and other alternative performance measures are included within the Financial Review and Additional information – Reconciliation of alternative performance measures.

The Board considers that the primary value of the Group is driven by the value and momentum of its Annual Recurring Revenue ("ARR") and the Group's strategy is designed to achieve strong organic growth in that metric. This metric is a function of the following key performance indicators, which are reviewed in detail below:

- The rate and value of new deal intake and up-sell activity; and
- The value of customer churn.

Total Contact Value

The Group secured an aggregate TCV of £14.6m (2019: £11.3m), being a 29.2% increase from the previous financial year, and a record year for the Group.

TCV was delivered from 61 new name customers (2019: 60) of which 43 (2019: 55) were subscription deals and aggregate TCV was £9.0m (2019: £6.4m). The number of up-sell deals sold to existing customers remained at the strong levels experienced in the prior year, remaining at 127 (2019: 127) with TCV increasing to £5.6m (2019: £4.9m).

	TCV of new name deals	Number of new name deals	TCV of upsell deals	Number of upsell deals	Total TCV	Total number of deals
Year ended 31 July 2020						
Business Spend Management						
United Kingdom	£3.0m	31	£3.6m	86	£6.6m	117
France	£0.8m	2	£0.8m	17	£1.6m	19
Germany	£0.3m	1	-	-	£0.3m	1
United States	£1.8m	6	£1.0m	6	£2.8m	12
Netherlands	£3.0m	11	£0.2m	18	£3.2m	29
Supplier						
Transactions	-	-	-	-	-	-
Tenders Direct	£0.1m	10*	-	-	£0.1m	10
Total	£9.0m	61	£5.6m	127	£14.6m	188

* The Tenders Direct business shows net wins

Note: The definition of segment is described in detail in the Financial Review

	TCV of new name deals	Number of new name deals	TCV of upsell deals	Number of upsell deals	Total TCV	Total number of deals
Year ended 31 July 2019						
Business Spend Management						
United Kingdom	£3.1m	35	£3.2m	107	£6.3m	142
France	£0.6m	3	£0.2m	4	£0.8m	7
Germany	£0.1m	2	£0.2m	3	£0.3m	5
United States	£1.0m	4	£0.6m	5	£1.6m	9
Netherlands	£1.6m	10	£0.7m	7	£2.3m	17
Supplier						
Global Transactions	-	-	-	-	-	-
Tenders Direct	-	6*	-	1*	-	7
Total	£6.4m	60	£4.9m	127	£11.3m	187

* The Tenders Direct business shows net wins

Note: The definition of segment is described in detail in the Financial Review

During the year the way information was internally reported changed to reflect a clearer presentation of how the Group is operated between Business Spend Management (buyer led) customers and supplier led customers. Comparative information has been re-presented to align to the updated analysis.

The transition to replicate the go-to-market strategy of the UK and Netherlands in each of the US, France and Germany territories, and the associated changes made to team structures is starting to gain momentum as can be seen with the delivery of a record year in TCV wins with increases secured in virtually all markets.

The Board is satisfied with the level of new names and up-sell deals won and the growth in pipeline during the year and is confident that the Group is now well positioned to further accelerate this win rate in the coming financial years.

Customer Churn

As reported previously, the Group has experienced heavy customer churn over the last two financial years in specific customers with non-authored product deployment and, as at 31 July 2019, the Group defined these as Heightened Risk Accounts ("HRA").

The detail below shows the progression that the Group has made during the year against those HRAs.

£'m	ARR
HRA value at the start of the year	5.0
Customer churn in year	(1.8)
Contracts converted to multi-year deals upon renewal	(1.6)
Correction of opening value	(0.2)
HRA value at the end of the year	1.4

The remaining HRAs are largely due for renewal in the following financial year.

The level of retention and conversion into multi-year deals in these accounts has been above the Board's initial expectations and demonstrates the Group's renewed ability to offer alternative solutions to existing customers.

Total churn in the reported year including HRAs was £4.4m (2019: £7.3m).

ARR

During the year COVID-19 has impacted the group in various ways, including delays in new business, deferral of project implementation service revenues through project deferrals and reduction in volume-based contracts.

The following table analyses the Group's ARR into three categories:

Non-volume based ARR

Volume based ARR

HRAs

£'m	2019	Growth / (Decline)	2020
Non-volume-based contracts	26.2	8.0%	28.3
Volume based contracts	13.1	(12.2%)	11.5
Underlying ARR	39.3	1.3%	39.8
HRA contracts	5.0	(72.0%)	1.4
Total	44.3	(7.0%)	41.2

The Board is encouraged by the underlying performance of the Group's non-volume-based business with an 8% increase in ARR from the previous reporting period.

The COVID-19 global pandemic has impacted performance adversely where customers have volume-based contracts; principally in the Group's Business Process Outsourcing ("BPO"), Managed Service Auctions and Invoice Capture businesses. Further minor impacts have been experienced in the Group's Tendering Services business where supplier subscriptions can be viewed as discretionary marketing expenditure.

ARR movement can be analysed further as follows:

Business Spend Management excluding HRAs (£'m)	2019	Growth / (Decline)	2020
United Kingdom	14.6	(4.8%)	13.9
France	3.9	18.0%	4.6
Germany	0.6	-%	0.6
United States	7.4	2.7%	7.6
Netherlands	4.6	13.0%	5.2
	31.1	2.6%	31.9
HRAs (£'m)	5.0	(72.0%)	1.4
	36.1	(7.8%)	33.3
Supplier (£'m)			
Tenders Direct	3.7	-%	3.7
Global Transactions	4.5	(6.7%)	4.2
	8.2	(3.7%)	7.9
Total	44.3	(7.0%)	41.2

ARR as at 31 July 2020 is in line with the Board's expectations. The NL Business Spend Management territory continued to perform across deal wins but did suffer from a small level of expected churn. The UK Business Spend Management territory performed better in the second half of the year but suffered larger churn overall. The US, France and Germany Business Spend Management territories suffered from both normal churn and churn arising from HRAs but now have teams in place and pipeline that continues to build.

Solutions and markets performance review

Business Spend Management (Buyer) solutions

The Group provides business spend management solutions to customers that enable those customers to reduce the cost of goods or services purchased through enhanced sourcing activities, access efficiencies through the automation of manual processes using technology and also to provide an enhanced level of corporate governance and compliance through work flows designed into the technology.

Buyer revenues for the year were £41.1m (2019: £45.0m). The decrease in the year was anticipated following the customer churn in the previous two financial years as well as impacts from COVID-19 on the Group's implementation services revenues and in its volume-based contracts.

Supplier solutions

The Group provides access to technology that enables suppliers to transact digitally with their customers. This technology, being driven by a buyer decision to make a supplier pay, is often referred to as networking technology and the technology can allow multiple documents in any format to be passed between suppliers and their customers and it can also allow greater collaboration between suppliers and their customers through the provision of other trading information. In addition, the Group uses its technology to deliver tailored new business opportunities to suppliers through its search and selection of a vast number of new business opportunities, tenders, from a number of international sources.

Revenues for the year were £8.5m (2019: £9.1m). The Tenders Direct business in the UK was broadly in line with the previous year with revenue of £4.1m (2019: £4.2m). Revenue from the Global Transactions business segment was £4.4m, £0.5m lower than the prior year (2019: £4.9m) as COVID-19 impacted this business segment with a lower number of transactions being generated by suppliers with their customers. The Board is aware of the variability in volume related areas of the Group's business and will continued to monitor performance closely.

Financial solutions

The Group has recently brought its new early settlement solution, bePayd, to market. The solution allows suppliers to accelerate the payment of a customer approved invoice in return for a small discount and is primarily aimed at the long tail of small suppliers in the supply chain, a population that is underserved. At launch, the solution is market leading in its simplicity, speed and convenience without any detriment to security or risk. The solution is entirely flexible down to single invoice level with extremely low values because of the end to end automation of the process. Funding of the early settlement can be provided by either the customer or Proactis (through a dedicated facility with HSBC) or a blended model.

Early adopters have been identified and the Group looks forward to implementation and working with these customers to roll out the solution with a view to testing and optimising take-up within their supply chains.

Markets

The Group offers true multi-company, multi-currency and multi-language capabilities and this remains an essential differentiator as the Group increases its presence across more sectors worldwide. The Group continues to sell its solutions to customers operating across several continents and many different sectors.

The Group competes on various levels; local vendors, Enterprise Resource Planning (“ERP”) vendors and international procurement vendors and this mix makes for an extremely competitive environment. The “end-to-end” message and tight integration techniques mitigate this and positions the Group as a value-led solution against both big ticket, consultancy led ERP vendors, international procurement vendors’ solutions and potential multi-vendor software led solutions. This value proposition is particularly compelling for mid-sized commercial and public sector organisations, both of which the Group is focused on across all of its business segments.

The Group’s go-to-market strategy is based on a targeted and efficient deployment of its marketing and sales resource within each market segment it operates in. Within those segments, the Group seeks to maximise its return by selecting verticals where its solutions fit well and are referenceable and, with thorough research and with experiential grounding, can attain a leading position as the default provider. This strategy is at varying levels of maturity within the Group’s business segments and the Board looks forward to the potential accelerated growth rates that could result.

Operational Review

Following the operational review in 2019, the Group changed strategy to focus on the review’s resultant action areas, being:

- Target market segment and customer profile definition
- Alignment of product portfolio
- Bolstering new business capabilities
- Focusing on retention
- Driving growth within the existing customer base
- Active management and leadership
- Financial position

An update on the progress against each of these areas is given below:

Targeted area	Update
Target market segment and customer profile definition	The Group is now well positioned with appropriate teams in place across its buyer businesses to target a consistent market segment and customer profile that is well defined around the variables of vertical focus, scale, complexity, existing technology stack and the procurement process of the customer.
Alignment of product portfolio	The Concept of One in the industry in which the Group operates is a rare commodity. The Group has an extensive product portfolio arising from the Group’s acquisition history. The Board recognises this and has project underway to better leverage those products that deliver in line with the Group’s strategic plan.
Bolstering new business capabilities	Teams are now in place across the Group’s buyer business locations in end-to-end sales (lead generation, field marketing, sales and account management) in order to replicate the performance of the UK and Netherlands buyer businesses.
Focusing on retention	At the end of the previous financial year the Group highlighted specific customer accounts that demonstrated a high level of churn risk. These have been actively tracked and mitigated where appropriate during the year.
Driving growth within existing customer base	TCV arising from up-sells during the year have increased by 14%. This is encouraging, but the Board believes that greater performance in this will follow on from the trajectory of new business wins.

Active management and leadership	All teams are now in place to start to deliver against the Group's strategy apart from a US Market Director, where the Group's UK Market Director continues to cover both territories until the US business transition has been fully completed.
Financial position	During the year the Group announced a fundamental reset of its bank facilities with HSBC UK.

Vision, mission and positioning

During the year, and as part of the Group's growth strategy a new vision, mission and positioning statement was developed. These are shown below and have become the principles of the Group.

Vision	to realise digital trade for all
Mission	to partner with and challenge organisations to realise the benefits of digital business processes using our innovative technology and our team's expertise
Positioning statement	<p>Proactis is a long-term business partner that is dedicated to realising the benefits of digital business processes with a strong return on investment for our customers</p> <p>We use proven innovative technology that is constantly being enhanced and improved, along with the expertise of our team, to actively collaborate with customers to develop solutions that deliver a consumer-style experience and that meet their needs today and in the future. We help customers challenge how they execute business processes and then transform them to deliver cost-savings, create process efficiencies and improve control, compliance and visibility</p>

Our values

The Group has created the following values which will help manage our relationships with the Group's stakeholders and communities:

- **Our customers** – we will share ownership of our customers' success and their return on investment
- **Our people** – we will support our people to be successful by providing enriching experiences within a mutually respectful relationship
- **Our planet** – we will make decisions and policies that protect our planet
- **Our quality** – we will deliver quality in every aspect of what we do
- **Our Concept of One** – we believe in simplicity, scalability and efficiency through singularity

M&A strategy and activity

The Group's M&A strategy continues to be to acquire businesses that fit strict selection criteria based around the following principles:

- Consolidation of complementary customer bases and solutions - the procurement space is sufficiently fragmented to offer significant scope for this;
- Businesses with long-term customer relationships, ideally contracted and with a proven track record of retention and renewal;
- Technology led solutions and service offerings that are complementary to the Group's existing offering; and
- Technology that is compatible with the Group's existing technology.

The Board is mindful that, despite the obvious potential accelerated growth that can be delivered, further M&A activity at this point could be too punitive from an equity dilution perspective and the Board is reluctant to increase gearing further at this time.

COVID-19

The Board and Executive Leadership Team ("ELT") continue to closely monitor the impacts of COVID-19 on the Group's businesses. Revenue impacts referenced earlier within this report have largely been offset by natural cost savings as a consequence of changes to operational and commercial management throughout the pandemic, where travel costs and marketing expenditure have been changed to support virtual working practices and previously anticipated investment in further growth has been deferred.

Directors

Following the end of the financial year, both Sean McDonough and Sophie Tomkins resigned from the Board. Sean resigned on 30 September but will stay an employee of the Group until his notice period ends on 20 September 2021; and Sophie resigned on 5 October 2020 with immediate effect.

The Board remains committed to strong corporate governance and in line with its earlier commitment to strengthen the independence of its non-executive directors, the Board is already undertaking a formal search process, with a number of candidates identified. This search includes the process of appointing Sophie's replacement.

Corporate Update

As reported previously, at the end of the previous financial year the Group commenced a formal sales process (as defined under the Takeover Code) to enable the Board to explore a number of approaches and expressions of interest which the Board considered had the potential to provide benefit to the Group's stakeholders. A comprehensive process was run to assess the credibility of interested parties and their ability to deliver an offer or strategic outcome that could be recommended to shareholders however, it did not lead to any firm proposals being received and the process was terminated. The Board is confident this was the right result for the business, as the Group has made significant headway in delivering against the revised strategy and the Board considers that superior shareholder value will be achieved by focusing the Group's efforts on delivery of this strategy.

Brexit

The Board's assessment of the impact on Brexit remains in line with the previous financial year. The Group has significant operations with staff and customers based within the member states of the European Union ("EU"), United Kingdom and United States. The Board acknowledges the continued uncertainty around Brexit and it considers that the Group is unlikely to be impacted significantly because the Group is not a large importer or exporter goods or services across EU borders. The Board continues to monitor the situation.

Section 172 (1) statement

The Board of Directors of Proactis Holdings plc consider both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote success of the company for the benefit of its members as a whole (having regard to the stakeholders and matter set out in s172(1)(a)-(f) of the Companies Act 2006) in the decisions taken during the year ended 31 July 2020. Specific matter with regards to s172(1)(a)-(f) are discussed further in the Directors' Report on page.

Outlook

Proactis is a profitable, SaaS based software company delivering compelling solutions to an exciting growth market. Our strategy is well founded and is starting to deliver the outcomes we had planned for with an improvement in both new business and churn performance enabling the Group to return to underlying ARR growth.

Accordingly, the Board is optimistic about the future prospects of the Group with an anticipation of a return to growth in the short-term and an acceleration of that in the longer term as its go-to-market strategy matures in France, Germany and the United States. The Board is also confident that bePayd will progress commercially along a similar timeframe.

The Board is, however, cognisant of the difficult external factors that are introducing an additional layer of risk into sales processes and, whilst current pipeline is strong and supportive of the Group's short-term objectives, it is therefore prudently managing operating margin and discretionary investment in order to ensure that the Group underpins its growth expectation with advances in earnings and cash flow in the current and future years. Furthermore, the Board expects the Group to meet its earnings forecast for FY21.

By order of the Board

Alan Aubrey
Chairman

Tim Sykes
Chief Executive Officer

Financial Review

Trading

The Group's reported revenues decreased by 8% to £49.6m (2019: £54.1m). Adjusted revenues were £49.2m after removing revenue relating to a non-core part of the business classified as held for sale at the year end.

The Group's business model, which is guided by the appropriate accounting standards and internal policies, means that revenue recognised in the income statement is largely a function of the deals (both new name and upsell) that were signed in the previous year, rather than the year in which those deals were actually signed. This timing difference can routinely be between 6 and 12 months before income statement recognition.

The Groups' strategy is to grow by a combination of organic, through provision of software and associated services, and inorganic means and therefore total reported revenue is a key performance indicator as the Group looks to continue to drive toward scale. Growth very recently has come through acquisition means and during the previous financial year the Group's operational review delivered strategic action points which if delivered correctly would return the levels of organic growth that the business has historically shown.

The Group's long-term revenue growth performance as represented by a three-year cumulative average growth rate was 25% (2019: 41%).

The Board monitors the Group's growth performance through a combination of several key performance indicators as follows:

	Year ended 31 July 2020	Year ended 31 July 2019	Year ended 31 July 2018
Reported revenue	£49.6m	£54.1m	£52.2m
Reported revenue growth	(8%)	4%	106%
Adjusted revenue	£49.2m	N/a	N/a
CAGR 3-year revenue growth*	25%	41%	45%
TCV of new name deals	£9.0m	£6.4m	£8.7m
Number of new name deals	61	60	64
TCV of upsell deals	£5.6m	£4.9m	£3.4m
Number of upsell deals	127	127	113
Total deal value signed	£14.6m	£11.3m	£12.1m

* Includes impact of acquisitions

Revenue by territory segment

Reported revenue in the year is shown below split by Business Spend Management ("Buyer") and Supplier businesses. Revenue reductions in all areas other than the Netherlands business was driven by churn in the previous two financial years as a consequence of the Group's SaaS based subscription model, along with COVID-19 impacts in volumes related parts of the Group.

The Group's reported revenues by market segment were:

	Year ended 31 July 2020 £m	Year ended 31 July 2019 £m
Business Spend Management revenue		
United Kingdom	17.1	18.8
France	5.8	6.2
Germany	1.9	2.6
United States	10.1	11.7
Netherlands	6.2	5.7
Supplier revenue		
Tenders Direct	4.1	4.2
Global Transactions	4.4	4.9
	49.6	54.1

Revenue is in line with the Board's expectation when taking into account the impact of COVID-19 on various parts of the Group, along with the effect on the anticipated growth arising from the Group's operational strategy. Revenue performance in the year has been impacted both by COVID-19 and the net customer loss position in the prior year (net £4.7m churn in the year ended 31 July 2019).

Revenue visibility

ARR is a key performance indicator giving the Board visibility of the Group's annualised run rate of contracted subscription, managed service, support and hosting revenues. It provides the Group's stakeholders with real indicators of:

- The amount of revenue from new business required to be won in order to hit expectations in future periods;
- The level of debt that the business can conservatively support and hence assist in the overall return to investors; and
- The overall strength of the Group.

The Group's ARR and can be analysed as follows:

Business Spend Management excluding HRAs	31 July 2020	31 July 2019
United Kingdom	13.9	14.6
France	4.6	3.9
Germany	0.6	0.6
United States	7.6	7.4
Netherlands	5.2	4.6
	31.9	31.1
HRAs	1.4	5.0
	33.3	36.1
Supplier		
Tenders Direct	3.7	3.7
Global Transactions	4.2	4.5
	7.9	8.2
Total	41.2	44.3

Underlying ARR growth in the France and United State Business Spend Management markets is encouraging as these territories transition to the Group's growth strategy. Germany was stable. Pipeline is building in each of those locations as a result of the operational changes and target markets focus that have previously been disclosed. The Board expects ARR growth in all Business Spend Management markets in the forthcoming financial year.

Gross margin

The presentation of the Group's reported results does not include the sub-total of gross profit in order to better reflect the reality of the Group's operational performance. Gross margin is, however, a relevant measure of performance when considered as revenues less cost of third-party revenue share or products.

The Group's business partners and its own direct sales effort sold contracts under both the subscription and perpetual business models delivering a consistent gross margin from the previous year of 88%, defined as revenue less cost of sales.

Staff costs and other operating expenses

The aggregate of staff costs and other operating expenses (excluding depreciation of property, plant and equipment and amortisation of intangibles assets) increased during the year to £35.5m (2019: £34.1m).

This part of the Group's costs has included significant items of income or expenditure over recent years associated primarily with the Group's acquisition activity and the resultant integration or restructuring programmes (together, "non-core net expenditure"). The impact of this non-core net expenditure on the aggregate of staff costs and other operating expenses is as follows:

	Year ended 31 July 2020 £m	Year ended 31 July 2019 £m
Aggregate of staff costs and other operating expenses (reported)	35.5	34.1
Non-core net expenditure	(2.8)	(1.2)
Aggregate of staff costs and other operating expenses (excluding non-core net expenditure)	32.7	32.9

Non-core net expenditure (see additional information) can be analysed as follows:

	Year ended 31 July 2020 £m	Year ended 31 July 2019 £m
Expenses of acquisition related activities	-	0.1
Release of contingent consideration	-	(0.9)
Loss arising from asset held for sale	0.4	-
Costs of restructuring the Group's operations – staff	0.9	1.6
Costs of restructuring the Group's operations – other	0.1	0.4
Legal and professional fees	0.7	0.4
Foreign exchange impacts	0.7	(0.4)
	2.8	1.2

Capitalised development costs and costs of software for own use were £8.5m (2019: £7.6m). The income statement includes a total charge for the amortisation of capitalised development costs and costs of software for own use of £7.2m (2019: £6.7m).

Depreciation of property, plant and equipment

The charge to depreciation of property, plant and equipment increased to £1.6m (2019: £0.6m). The current year charge includes a charge relating to IFRS 16 adoption from 1 August 2019 of £1.1m

Amortisation of intangible assets

The charge to amortisation of intangible assets increased to £10.6m (2019: £10.1m) due to the increase in development costs capitalised in the previous year following the Esize acquisition.

Goodwill is tested for impairment on an annual basis which resulted in the value in use calculations performed as at 31 July 2020 indicating the need to impair goodwill in the US, France and Germany Cash Generating Unit by the amount of £14.8m (2019: £27.0m impairment against the US CGU). The UK, Netherlands, Global Transactions, Tenders Direct and bePayd showed headroom in these calculations. The value in use calculations were sensitised for reasonably possible changes in key assumptions.

Interest

The Group incurred a net interest charge of £1.0m (2019: £1.4m) of which £1.3m (2019: £1.3m) was bank interest arising from the Group's banking facilities. The other elements relate to fair value, foreign exchange and interest impacts from convertible loan notes, and IFRS 16, Leases.

Taxation

The Group has reported a net charge in its income statement of £0.02m (2019: £0.7m) resulting primarily from the impact of changes in deferred tax balances.

The Group's charge to current year income tax was £0.4m which was an effective rate of 6% against chargeable profit before tax of £7.2m. This is below the weighted average income tax rate for the jurisdictions that the Group operates in because of the utilisation of tax losses and allowances within the Group which the Board considers will provide long-term benefit.

The Group recognises deferred tax assets related to tax losses of £0.8m (2019: £0.8m).

Reported profit and Group Adjusted profit performance

The Board considers that each of the two years ended 31 July 2020 have been significantly impacted by non-core net expenditure incurred primarily as part the Group's acquisition and restructuring activity. A summary of the various profit measures is set out below.

	Year ended 31 July 2020		Year ended 31 July 2019	
	¹ Reported	¹ Adjusted	Reported	Adjusted
Revenue	£49.6m	£49.2m	£54.1m	N/a
Earnings before interest, tax, depreciation and amortisation ('EBITDA') ¹	£9.0m	£11.8m	£13.9m	£15.1m
Operating (loss)/profit	(£18.4m)	£4.0m	(£24.4m)	£8.8m
(Loss)/profit before tax	(£19.3m)	£2.6m	(£25.8m)	£7.5m
Earnings/(loss) per share	(19.9p)	2.9p	(27.9p)	6.6p

Note 1: See Additional Information – Reconciliation of alternative performance measures.

Cash flow

The Group reported net cash from operating activities of £8.0m (2019: £11.9m) which is higher than the reported operating loss of the Group of £18.4m (2019: £24.4m). Cash flows for the year ended 31 July 2020 were affected by £0.3m (2019: £0.6m) of costs that were charged in the income statement during the year ended 31 July 2019 and accrued at 31 July 2019 but paid during the year ended 31 July 2020. The cash flow for the year ended 31 July 2020 was also impacted by non-core net expenditure charged to the income statement during the current financial year related principally to the restructuring programme.

An analysis of the Group Adjusted Free Cash Flow is as follows:

	Year ended 31 July 2020 £m	Year ended 31 July 2019 £m
Reported Net cash flow from operating activities	8.0	11.9
Non-core net expenditure incurred in prior year but paid in current year	0.3	0.6
Non-core net expenditure charged and paid within the same year	1.6	2.6
Adjusted Net cash flow from operating activities	9.9	15.1
Purchase of plant and equipment and intangible assets	(0.5)	(0.6)
Development expenditure capitalised	(8.5)	(7.6)
Adjusted Group Net Free Cash Flow	0.9	6.9

The Group paid a cash dividend of £Nil (2019: £1.4m) to its equity investors.

Net bank debt

The Group reported net bank debt of £37.1m at 31 July 2020 (2019: £36.5m), comprising total cash balances of £5.5m (2019: £7.7m) and gross bank debt of £42.6m (2019: £44.2m) of which £0.9m is payable within one year.

The analysis of net bank debt above excludes the remaining \$3.75m convertible loan notes issued as part of the Perfect acquisition as well as the €3.0m of convertible loan notes issued as part of the Esize acquisition.

Earnings per share

Basic loss per share was 19.9p (2019: 27.9p). The Group reports adjusted profit per share measure (see Note 5) of 2.9p per share (2019: 6.6p) to take account of non-core net expenditure (as shown in the additional information) and other factors.

Dividend policy

The Board announced in April 2019 that it had decided to suspend the payment of an annual dividend. Therefore, no final dividend is proposed (2019: nil).

Treasury

The Group manages its cash position in a manner designed to minimise interest payable on its structured finance facilities. Surplus cash funds are used to reduce debt.

Richard Hughes
Chief Financial Officer
28 October 2020

Consolidated Income Statement for the year ended 31 July 2020

	Notes	2020 £000	2019 £000
Revenue	3	49,571	54,140
Cost of sales		(5,339)	(6,659)
Staff costs		(24,118)	(22,892)
Other operating expenses		(11,361)	(11,231)
Depreciation of property, plant and equipment		(1,642)	(608)
Amortisation of intangible assets		(10,664)	(10,136)
Impairment of goodwill and intangible assets		(14,813)	(26,999)
Operating loss		(18,366)	(24,385)
Finance income		-	5
Finance expenses		(974)	(1,440)
Loss before taxation	3	(19,340)	(25,820)
Income tax charge	4	(20)	(703)
Loss for the year		(19,360)	(26,523)
Loss attributable to:			
Owners of the Company		(19,017)	(26,462)
Non-controlling interests		(343)	(61)
		(19,360)	(26,523)
Loss per ordinary share:			
- Basic	5	(19.9)p	(27.9)p
- Diluted	5	(19.9)p	(27.9)p

The following notes form an integral part of these financial statements.

Consolidated Statement of profit or loss and other comprehensive income for the year ended 31 July 2020

	2020	2019
Notes	£000	£000
Loss for the period	(19,360)	(26,523)
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Foreign operations – foreign currency translation differences	332	(192)
	-----	-----
Other comprehensive gain/(loss) net of tax	332	(192)
	-----	-----
Other comprehensive income/(loss) attributable to:		
Owners of the Company	121	(249)
Non-controlling interests	211	57
	-----	-----
	332	(192)
	-----	-----
Total comprehensive loss attributable to:		
Owners of the Company	(18,896)	(26,711)
Non-controlling interests	(132)	(4)
	-----	-----
	(19,028)	(26,715)
	-----	-----

The following notes form an integral part of these financial statements

Consolidated Balance Sheet as at 31 July 2020

	Notes	2020 £000	2019 £000
Non-current assets			
Property, plant & equipment		5,439	1,625
Intangible assets	6	118,754	136,082
Deferred tax asset		746	755
		<u>124,939</u>	<u>138,462</u>
Current assets			
Trade and other receivables		13,239	23,048
Cash and cash equivalents		4,424	7,732
		<u>17,663</u>	<u>30,780</u>
Assets held for sale		10,273	-
Total assets		<u>152,875</u>	<u>169,242</u>
Current liabilities			
Trade and other payables		9,136	21,616
Obligations under finance leases		-	30
Lease liabilities		1,008	-
Contract liabilities		18,242	17,306
Income taxes		90	-
Loans and borrowings	7	1,356	3,181
		<u>29,832</u>	<u>42,133</u>
Liabilities directly associated with the assets held for sale		10,429	-
		<u>40,261</u>	<u>42,133</u>
Non-current liabilities			
Contract liabilities		184	192
Deferred tax liabilities		8,810	9,153
Loans and borrowings	7	48,153	46,577
Obligations under finance leases		-	27
Lease liabilities		3,164	-
Provisions		492	656
		<u>60,803</u>	<u>56,605</u>
Total liabilities		<u>101,064</u>	<u>98,738</u>
Net assets		<u>51,811</u>	<u>70,504</u>

Equity

Called up share capital	9,553	9,522
Share premium account	-	83,513
Merger reserve	556	556
Capital reserve	449	449
Equity reserve	-	89
Foreign exchange reserve	(1,265)	(1,386)
Retained earnings	41,050	(23,839)

Equity attributable to equity holders of the Company

Non-controlling interest	1,468	1,600
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Total equity

51,811	70,504
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The following notes form an integral part of these financial statements.

Consolidated statement of changes in equity

As at 31 July 2020

	Share capital	Share premium	Merger reserve	Capital reserve	Foreign exchange reserve	Equity component of convertible notes	Retained earnings	Total	Non- controlling interest	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
At 31 July 2018	9,324	81,464	556	449	(1,137)	80	2,875	93,611	1,604	95,215
IFRS15 transition impact	-	-	-	-	-	-	606	606	-	606
At 1 August 2018	9,324	81,464	556	449	(1,137)	80	3,481	94,217	1,604	95,821
Result for the period	-	-	-	-	-	-	(26,462)	(26,462)	(61)	(26,523)
Other comprehensive income	-	-	-	-	(249)	-	-	(249)	57	(192)
Total comprehensive income for the period	-	-	-	-	(249)	-	(26,462)	(26,711)	(4)	(26,715)
Shares issued during the period	129	1,267	-	-	-	-	-	1,396	-	1,396
Share options exercised	10	18	-	-	-	-	-	28	-	28
Issue of convertible notes	-	-	-	-	-	29	-	29	-	29
Convertible loan note conversion	59	764	-	-	-	(20)	20	823	-	823
Dividend payment of 1.5p per share	-	-	-	-	-	-	(1,419)	(1,419)	-	(1,419)
Share based payment charges	-	-	-	-	-	-	541	541	-	541
At 31 July 2019	9,522	83,513	556	449	(1,386)	89	(23,839)	68,904	1,600	70,504
Result for the period	-	-	-	-	-	-	(19,017)	(19,017)	(343)	(19,360)
Other comprehensive income	-	-	-	-	121	-	-	121	211	332
Total comprehensive income for the period	-	-	-	-	121	-	(19,017)	(18,896)	(132)	(19,028)
Issue of ordinary shares related to business combinations	31	146	-	-	-	-	-	177	-	177
Share premium reduction	-	(83,659)	-	-	-	-	83,659	-	-	-
Release of equity component of convertible notes	-	-	-	-	-	(89)	-	(89)	-	(89)
Share based payment charges	-	-	-	-	-	-	247	247	-	247
At 31 July 2020	9,553	-	556	449	(1,265)	-	41,050	50,343	1,468	51,811

Consolidated Cash Flow Statement for the year ended 31 July 2020

	Notes	2020 £000	2019 £000
Operating activities			
(Loss) for the year		(19,360)	(26,523)
Amortisation of intangible assets		10,664	10,136
Impairment of goodwill and intangible assets		14,813	26,999
Depreciation		1,642	608
Net finance expense		974	1,435
Income tax charge		20	703
Share based payment charges		247	541
Operating cash flow before changes in working capital		9,000	13,899
Movement in trade and other receivables		396	489
Movement in trade and other payables and contract liabilities		44	(204)
Operating cash flow from operations		9,440	14,184
Finance expense		(1,409)	(1,269)
Income tax paid		(77)	(995)
Net cash flow from operating activities		7,954	11,920
Investing activities			
Purchase of plant and equipment		(530)	(586)
Payments to acquire subsidiary undertakings, net of cash acquired		-	(8,365)
Development expenditure capitalised		(8,525)	(7,649)
Net cash flow from investing activities		(9,055)	(16,600)
Financing activities			
Payment of dividend		-	(1,419)
Proceeds from issue of shares		-	28
Receipts from loans and borrowings		1,586	10,178
Repayment of borrowings		(2,557)	(5,286)
Payment of lease liabilities (2019: Finance lease payments)		(976)	(60)
Net cash flow from financing activities		(1,947)	3,441
Effect of exchange rate movements on cash and cash equivalents		859	(590)
Net (decrease)/increase in cash and cash equivalents		(3,048)	(1,239)
Cash and cash equivalents at the beginning of the year		7,732	9,561
Cash and cash equivalents at the end of the year		5,543	7,732
Cash and cash equivalents at end of year – from continuing operations		4,424	7,732
Cash and cash equivalents at end of year – assets held for sale		1,119	-

Notes

These audited results have been prepared on the basis of the accounting policies which are to be set out in Proactis Holdings PLC's annual report and financial statements for the year ended 31 July 2020.

The consolidated financial statements of the Group for the year ended 31 July 2020 were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the EU ("adopted IFRSs") and applicable law.

The financial information set out above does not constitute the company's statutory financial statements for the years ended 31 July 2020 or 2019 but is derived from those financial statements.

Statutory financial statements for 2019 have been delivered to the Registrar of Companies and distributed to shareholders, and those for 2020 will be distributed to shareholders on or before 13 November 2020. The auditors have reported on those financial statements and their reports were:

- (i) unqualified;
- (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and
- (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect of the financial statements for 2018 or 2019.

1. Basis of preparation

The Group financial statements have been prepared and approved by the directors in accordance with adopted IFRSs.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2. Change in significant accounting policies

IFRS 16 'leases' was adopted by the Group on the 1st August 2019. The new standard provides a single lease accounting model, specifying how leases are recognised, measured, presented and disclosed.

The Group has applied IFRS 16 using the modified retrospective transition approach. Therefore, the comparative information has not been restated and continues to be reported under IAS 17. Under IFRS 16, the Group distinguishes between leases and service contracts based on whether there is an identified asset controlled by the Group. Control exists if the lessee has the right to obtain substantially all of the economic benefit from the use of the asset (the cash flows generated by that asset) and the right to direct the use of that asset as if it were their own. Where control exists, the Group is required to recognise a right-of-use asset and an opposing discounted lease liability, rather than accounting for operating lease payments through the Consolidated Income Statement.

Lease liabilities were determined based on the value of the remaining lease payments, discounted by the appropriate incremental borrowing rates. The right-of-use (ROU) assets were measured based on the related lease liability as at the date of transition, adjusted for prepaid or accrued lease payments. The financial statement impact of IFRS 16 is shown within this note.

On initial adoption, the Group has elected to use the following practical expedients proposed by the standard:

- Lease payments for contracts with a duration of 12 months or less to be expensed to the income statement on a straight-line basis over the lease term.
- Lease payments for contracts for which the underlying asset is of a low value (defined by the Group as below £5,000) to be expensed to the income statement on a straight-line basis over the lease term.
- The application of a single discount rate to a portfolio of leases with reasonably similar characteristics, for example copiers with a similar lease term.
- The Group has not reassessed whether a contract is, or contains, a lease at the date of initial application.

Judgements made in applying IFRS 16 include assessing the lease term and identifying the discount rate to be used.

Under IFRS 16, the Group has capitalised the right of use of properties, cars and copiers previously held under operating leases. At the date of adoption 10 properties, 17 cars and 17 copiers were capitalised. The lease term corresponds to the duration of the contracts signed.

The Group has recognised a right of use asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. Operating lease expenses have been replaced by a depreciation expense on right of use assets recognised and an interest expense as the interest rate implicit in the Group's lease liabilities unwinds. When the interest rate implicit in the lease is not readily determined, the Group's incremental borrowing rate has been used.

Finance leases previously capitalised under IAS 17 'Leases' have been reclassified to the right of use asset category under IFRS 16.

The following table summarises the impacts of adopting IFRS 16 on the Group's consolidated statement of financial position as at 1 August 2019.

	As reported 31 July 2019 £000	IFRS 16 impacts £000	Adjusted opening balance sheet £000
Property, plant & equipment	1,625	5,135	6,760
Trade and other receivables	23,048	(108)	22,940
Trade and other payables	21,616	(216)	21,400
Obligations under finance leases	30	(30)	-
Lease liabilities	-	1,029	1,029
Obligations under finance leases	27	(27)	-
Lease liabilities	-	4,271	4,271

2. Change in significant accounting policies (continued)

The adoption of IFRS16 in the 12 months to 31 July 2020 resulted in an increase in depreciation of £1,111,000 and finance expenses of £128,000. Other operating expenses decreased by £1,154,000.

The Groups banking covenants have not been impacted by the adoption of IFRS16, they continue to be measured and monitored on a 'frozen GAAP' basis.

3. Operating segments

Operating segments have been identified based on the internal reporting information and management structures within the Group and take into consideration the relative size of the operation. The Board has determined there are two (2019: four) reportable segments being the business spend management ("buyer") and the supplier business, based on how the Group goes to market. The Board has determined that this is a more appropriate segmentation than the prior year approach of segments by geographical location and reflects the high level distinct divide between buyer and supplier customers. This reporting change reflects the internal organisations changes that have occurred during the year. As the Group continues to develop and expand, the number of reportable segments will be kept under review.

Each reportable segment derives its revenues from the sale of business software and associated services.

	Buyer £000	Supplier £000	Total £000
2020			
SaaS revenue	36,725	8,089	44,814
Services revenue	4,317	440	4,757
	41,042	8,529	49,571
Segment revenue			
Direct costs	(20,492)	(2,850)	(23,342)
Segment contribution	20,550	5,679	26,229
2019 (restated)			
SaaS revenue	39,909	8,837	48,746
Services revenue	4,951	443	5,394
	44,860	9,280	54,140
Segment revenue			
Direct costs	(21,203)	(2,397)	(23,600)
Segment contribution	23,657	6,883	30,540

3. Operating segments (continued)

Reconciliations of information on reportable segments to IFRS measures

	2020 £000	2019 £000
Total contribution reportable segments	26,229	30,540
Central costs (including non-core net expenditure)	(17,252)	(16,641)
Depreciation	(1,642)	(608)
Amortisation	(10,664)	(10,136)
Impairment of goodwill	(14,813)	(26,999)
Share based payment charges	(247)	(541)
Net interest cost	(974)	(1,435)
	-----	-----
Consolidated (loss) before tax	(19,340)	(25,820)
	-----	-----

4. Taxation – Reconciliation of effective tax rate

Reconciliation of effective tax rate

	2020 £000	2019 £000
Loss before tax for the period	(19,340)	(25,820)
Tax using the UK corporation tax rate of 19% (2019: 19%)	(3,675)	(4,906)
Effect of differential foreign tax rates	(422)	(492)
Current tax adjustments in respect of prior periods	(87)	(573)
Deferred tax adjustments in respect of prior periods	78	739
Disallowable net expenses	2,745	5,161
Losses used not previously recognised	(304)	(530)
Relief from governmental tax incentives	(367)	(323)
Effect of change in tax rates on deferred tax (see below)	372	(84)
Current year losses for which no deferred tax asset is recognised	1,581	1,485
Adjustments in respect of share-based payments	99	226
	-----	-----
Total tax charge	20	703
	-----	-----

5. Basic and diluted earnings per ordinary share

The calculation of earnings per ordinary share is based on the profit or loss for the period attributable to ordinary shareholders and the weighted average number of equity voting shares in issue as follows.

	2020	2019
(Loss) for the year attributable to owners of the Company (£000)	(19,017)	(26,462)
Post tax effect of non-core net expenditure (see additional information)	2,007	700
Post tax effect on customer related intangible assets	3,571	3,454
Post tax effect on impairment of goodwill	14,813	26,999
Post tax effect of share-based payment charges	247	541
Post tax effect of convertible loan note interest	116	113
Post tax effect of fair value and foreign currency on convertible loan note	(591)	-
Non-recurring tax factors	1,650	873
	-----	-----
Post tax effect of adjusted earnings (£000)	2,796	6,218
	-----	-----
Weighted average number of shares (number '000)	95,485	94,913
Dilutive effect of share options (number '000)	565	1,771
	-----	-----
Fully diluted number of shares (number '000)	96,050	96,684
	-----	-----
Basic (loss)/earnings per ordinary share (pence)	(19.9)p	(27.9)p
Adjusted earnings per ordinary share (pence)	2.9p	6.6p
Diluted (loss)/earnings per ordinary share (pence)	(19.9)p	(27.9)p
Adjusted diluted earnings per ordinary share (pence)	2.9p	6.4p
	-----	-----

6. Intangible assets

	Goodwill £000	Customer related intangibles £000	Development costs £000	Software for own use £000	Total £000
Cost					
At 31 July 2018	106,672	39,300	22,994	3,688	172,654
Internally developed	-	-	7,431	180	7,611
On acquisitions	9,086	3,056	1,505	90	13,737
Additions	-	-	-	38	38
Transfers	-	-	70	(70)	-
Effect of movements in exchange rates	-	-	765	12	777
At 31 July 2019	115,758	42,356	32,765	3,938	194,817
Internally developed	-	-	8,506	19	8,525
Additions	-	-	-	33	33
Disposals	-	-	-	(117)	(117)
Effect of movements in exchange rates	-	-	(1,207)	(93)	(1,300)
At 31 July 2020	115,758	42,356	40,064	3,780	201,958
Amortisation and impairment					
At 31 July 2018	-	6,655	12,146	2,441	21,242
Amortisation for the year	-	3,479	6,010	647	10,136
Impairment in the year	26,999	-	-	-	26,999
Effect of movements in exchange rates	-	-	353	5	358
At 31 July 2019	26,999	10,134	18,509	3,093	58,735
Amortisation for the year	-	3,479	6,717	468	10,664
Impairment in the year	14,813	-	-	-	14,813
Disposals	-	-	-	(117)	(117)
Effect of movements in exchange rates	-	-	(800)	(91)	(891)
At 31 July 2020	41,812	13,613	24,426	3,353	83,204
Carrying amounts					
At 31 July 2019	88,759	32,222	14,256	845	136,082
At 31 July 2020	73,946	28,743	15,638	427	118,754

6. Intangible assets (continued)

The Goodwill and other intangible assets are allocated to the Group's CGU's as follows:

	Buyer					Supplier			
	United Kingdom	United States	France	Germany	Netherlands	Global transactions	Proactis Tenders	bePayd	Total
2020	£000	£000	£000	£000	£000	£000	£000	£000	£000
Goodwill	31,491	8,140	1,301	2,388	11,090	6,518	13,017	-	73,946
Other intangible assets	11,295	14,310	4,894	1,291	4,692	3,909	3,407	1,010	44,808
Total intangible assets	42,786	22,450	6,195	3,679	15,782	10,427	16,424	1,010	118,754

	United Kingdom	Netherlands	Rest of Mainland Europe	United States	Total
2019	£000	£000	£000	£000	£000
Goodwill	44,508	11,090	21,648	11,513	88,759
Other intangible assets	15,842	4,913	10,782	15,786	47,323
Total intangible assets	60,350	16,003	32,430	27,299	136,082

Following the appointment of Tim Sykes as CEO, the Group has undergone a significant restructuring in terms of management team structure. This has affected how management monitors and makes decisions about the Group's operations, therefore, as a result of this the Group reassessed the appropriateness of existing CGUs. As a result of this assessment, the CGUs were reorganised to reflect the level lowest level within the Group which goodwill is monitored for internal management purposes and to ensure that no cash generating unit was larger than a segment of the business. The UK, US, France, Germany and Netherlands CGUs consolidate into the Business Spend Management ("Buyer") reportable segment. The Global Transactions, Proactis Tenders and bePayd CGUs consolidate into the Supplier reportable segment. The CGUs are deemed to represent the lowest level of assets generating largely independent cash inflows. The former aggregation of assets into cash generating units reflected the reportable segments of the Group in the prior period.

6. Intangible assets (continued)

Goodwill impairment testing

In accordance with IFRS, the Group tests the carrying value of goodwill and intangible assets for impairment annually and whenever events or circumstances change.

Impairment testing is performed by comparing the carrying value of those assets within each cash-generating unit (CGU) to the recoverable amount, determined on the basis of the CGU's value in use. The value in use is based on the net present value of future cash flow projections discounted at pre-tax rates appropriate for each CGU.

The Group's CGUs for the purposes of impairment testing, consist of United Kingdom, United States, France, Germany, Netherlands, Global Transactions, Proactis Tenders and bePayd.

The value in use calculations are based upon detailed budgets and forecasts prepared over a 4-year period, followed by an extrapolation into perpetuity for the terminal value of expected cash flows at growth rates given below, discounted at the rates provided below. Growth rates used reflect the best estimates of the long-term growth rate for each cash generating unit. The discount rates reflect the different risk profiles the Directors attach to each income stream and CGU.

Key assumptions used in the value in use calculations are as follows:

	2020	2019
	%	%
Long term growth rate	2.00	2.00
Discount rate (pre-tax rate) UK CGU	10.50	11.47
Discount rate (pre-tax rate) NL CGU	10.62	12.25
Discount rate (pre-tax rate) EU CGU	-	11.86
Discount rate (pre-tax rate) US CGU	10.45	16.51
Discount rate (pre-tax rate) FR CGU	9.20	-
Discount rate (pre-tax rate) DE CGU	11.87	-
Discount rate (pre-tax rate) Global Transactions CGU	9.66	-
Discount rate (pre-tax rate) Proactis Tenders CGU	10.49	-
Discount rate (pre-tax rate) bePayd CGU	10.54	-
Budgeted overall revenue growth rate (average of next 4 years)	9.79	3.58
Budgeted staff costs growth rate (average of next 4 years)	1.90	2.00

The budgeted average revenue growth rates range from around 2% in the most established CGUs to in the region of 29% in the smaller expanding CGUs which are growing from a lower base.

The value in use calculations performed at 31 July 2020 were prepared based on management's best estimates of future performance, taking into account market conditions and the historic performance of each cash generating unit. Based on the value in use calculations prepared for the United States, France and Germany cash generating units there was a requirement for an impairment to be recognised. The value in use for these CGUs reflects delayed pipeline conversion and slowed volume related businesses during the period under review including the impact of COVID-19. The recoverable amount of these cash generating units was estimated based on their value in use to be £20,216,000, £6,306,000 and £3,654,000 respectively. Accordingly, an impairment of £3,373,000 was recognised for the United States CGU, £8,778,000 for the France CGU, and £2,663,000 for the Germany CGU.

Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount in the UK CGU. A 0.14% movement in the discount rate or a 0.28% reduction in initial revenue growth would remove the headroom in the UK CGU.

Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount in the NL CGU. A 0.33% movement in the discount rate or a 0.69% reduction in initial revenue growth would remove the headroom in the NL CGU.

Management has identified that a reasonably possible change in two key assumptions could cause the carrying amount to exceed the recoverable amount in the Proactis Tenders CGU. A 0.09% movement in the discount rate or a 0.26% reduction in initial revenue growth would remove the headroom in the Proactis Tenders CGU.

Management does not believe a reasonable possible change in key assumptions would erode the headroom in the Global Transactions and bePayd CGU's.

7. Net debt

	2020 £000	2019 £000
Non-current		
Secured bank loans	41,744	41,034
US Government loan	336	-
Convertible notes	6,073	5,543
Lease liabilities (2019: finance lease liabilities)	3,164	27
Total non-current	51,317	46,604
Current		
Secured bank loans	936	3,181
US Government loan	420	-
Lease liabilities (2019: finance lease liabilities)	1,008	30
Total current	2,364	3,211
Total borrowings	53,681	49,815
Less:		
Cash and cash equivalents, including cash from assets held for sale	5,543	7,732
Net debt	48,138	42,083
Net bank debt	37,137	36,483

Additional information – unaudited

Reconciliation of alternative performance measures

	Reported EBITDA	Adjusted EBITDA	Adjusted operating profit	Adjusted profit before tax
	£000	£000	£000	£000
Loss after tax	(19,360)	(19,360)	(19,360)	(19,360)
Add back:				
Tax charge	20	20	20	20
Net interest charge	974	974	974	-
Share-based payment charges	247	247	247	247
Amortisation	10,664	10,664	-	-
Impairment of goodwill and intangible assets	14,813	14,813	14,813	14,813
Depreciation	1,642	1,642	-	-
Non-core net expenditure (below)	-	2,844	2,844	2,844
Interest charged on convertible loan notes issued in respect of the acquisitions of Perfect Commerce and Esize	-	-	-	143
Fair value and foreign currency impacts on convertible loan notes	-	-	-	(591)
Amortisation charged on fair value uplift of acquired capitalised development costs	-	-	1,004	1,004
Amortisation charged on customer related intangible assets	-	-	3,479	3,479
	9,000	11,844	4,021	2,599

Management has presented the performance measure adjusted EBITDA because it monitors this performance measure at a consolidated level and it believes that this measure is relevant to an understanding of the Group's financial performance. Adjusted EBITDA is calculated by adjusting profit before taxation to exclude the impact of net finance costs, depreciation, amortisation, share based payment charges and non-core net expenditure.

Adjusted EBITDA is not a defined performance measure in IFRS. The Group's definition of adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities.

	2020 £000	2019 £000
(Loss) before taxation	(19,340)	(25,820)
Adjustments for:		
Net finance costs	974	1,435
Depreciation	1,642	608
Amortisation	10,664	10,136
Impairment of goodwill and intangible assets	14,813	26,999
Share based payment charges *	247	541
Non-core net expenditure **: <ul style="list-style-type: none"> Costs of restructuring the Group's operations – staff *** Costs of restructuring the Group's operations – other **** Net loss related to assets held for sale Expenses of acquisition related activities Release of contingent consideration Legal and professional fees Non-core foreign exchange impacts ***** 	901 142 405 - - 698 698	1,533 427 - 128 (914) 417 (425)
Adjusted EBITDA	11,844	15,065

Additional information – unaudited (continued)

* Share Based Payments expense has been excluded to enable readers to better understand the underlying trade

** Non-core net expenditure includes significant items of income or expenditure associated primarily with the Groups acquisition activity and the restructuring programmes (together, “non-core-net expenditure).

*** Costs of restructuring the Group's operations – staff includes the salary costs of certain staff members in management position who were made redundant during the year. Management do not consider these costs as recurring.

**** Costs of restructuring the Group's operations – other includes the cost of dual running offices during transition and the cost of running offices prior to closure that are considered not to recur next year.

***** Non-core foreign exchange impacts relates specifically the FX impact in the Income Statement of other items of non-core expenditure and is included as such to be consistent.