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 2019.

Key Financial information:

- Total contract value signed was £11.3m (2018: £12.1m), adding to future years' revenue pipeline
- Reported revenues increased by 4% to £54.1m (2018: £52.2m)
- Annualised recurring revenue ("ARR") maintained at £44.3m (2018: £44.5m)
- Adjusted EBITDA of £15.1m (2018: £17.3m), in line with expectations
- Impairment of £27.0m taken against US CGU as a result of the challenges in that market identified and announced during the Operational Review
- Adjusted EPS 6.6p (2018: 10.6p)
- Loss before tax £25.8m (2018: profit before tax £3.8m)
- Net bank debt reduced to £36.5m (31 January 2019: £39.3m)
- Net cash flow from operating activities £11.9m (2018: £8.4m)

Operational highlights:

- Completed Operational Review in the period and implemented new strategic plan
- Good level of new deals signed, with 60 new names added (2018: 64)
- Increased up-selling to existing customers with 127 deals secured (2018:113)
- First sale completed by German commercial team during September 2019, demonstrating early success of recent restructuring and new strategic plan
- Committed overdraft facility of £20m signed to support the delivery of the Group's supplier paid accelerated payments solution, bePayd – which is now live
- Strengthened Board with appointment of Independent Non-Executive Director and CFO
- Acquisition of Esize, a recognised territory leader in the Netherlands, has performed very well

Formal Sales Process ("FSP")

- The Board has thoroughly reviewed and assessed the credibility of a number of expressions of interest ("EOIs") following the Company's announcement of the FSP on 29 July 2019. Certain EOIs have led to more advanced discussions including the provision of certain detailed financial information with regard to the business in a dataroom. The process remains ongoing. The Board reiterates that there can be no certainty that any offer will be forthcoming or the terms of any such offer.

Tim Sykes, CEO commented: "*The results for the period are in line with the Board's expectations. Following the completion of the Operational review announced in April 2019, the management team has been working incredibly hard to assess and rectify the issues identified and that have impacted overall Group performance over the last two financial years. This has included managing leadership change throughout the regions affected as well as through the business as we build teams that are capable of executing the Group's new go to market strategy. The Board is confident that this capability is now in place and the whole team can execute efficiently to deliver a substantial and high growth company. We are seeing relevant progress already with pipeline starting to build and an encouraging level of order intake in the new financial year.*

"The Group has been profitable and cash generative in the period under review, and the long-term prospects are exciting. With a strong ARR giving high levels of visibility, and a proven, highly relevant end-to-end offering, we begin the new financial year in line with management's expectations and with optimism for the Group's potential."

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 1,000 buying organisations around the world from the commercial, public and not-for-profit sectors.

Proactis has been quoted on the AIM market of the London Stock Exchange since June 2006.

Strategic report

The Group has a long-term strategy of building an international business focussed on delivering best value to its customers by enabling the digital transformation of their procurement systems and processes through the application of the Group's software technology and provision of its expert services. The critical success factors in delivering this strategy are a combination of building market relevant solutions supported by strong new business execution teams and customer management processes designed to sustain long-term customer relationships.

This strategy is delivered through the Group's business model which is designed to deliver a strong financial proposition of profitable, cash generative organic growth with a high level of visibility illustrated by its ARR.

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 focussed approach to the up-selling of the Group's extensive range of solutions and creating even broader and deeper customer relationships. In addition, the Group has a substantial opportunity to provide complementary supplier paid products which leverage the business spend management solutions. These supplier-paid transactional services and tender services are already delivering substantial revenue and the Group's financial solution, bePayd, will be coming to market in the near term.

This organic growth strategy can be illustrated below:

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

The Group will also look to undertake selective M&A activity when appropriate with a focus on complementary customer bases, solutions and technologies as and when appropriate.

Strategic performance

During the period, the Group's reported revenues increased by 4% to £54.1m (2018: £52.2m) of which £5.3m was contributed by Esize Netherlands BV ("Esize"). The Group acquired Esize on 6 August 2018 and the Board is pleased with its performance and the strategic opportunities it presents.

A financial analysis of revenue growth as well as statutory profit measures is set out within the Chief Financial Officer's report.

The Board considers that a primary key performance indicator is the value and momentum of the Group's ARR which can be summarised as set out below.

	2018		Growth/(decline)		2019	
	Spend management solutions (£m)	Supplier paid products (£m)	Spend management solutions (%)	Supplier paid products (%)	Spend management solutions (£m)	Supplier paid products (£m)
United Kingdom	14.1	3.8	4%	(3%)	14.6	3.7
France & Germany	10.9	4.9	(36%)	(8%)	7.0	4.5
United States	11.0	-	(10%)	-	9.9	-
Netherlands	-	-	[1]21%	-	4.6	-
	36.0	8.7	-%	(6%)	36.1	8.2
	44.7		(1%)		44.3	

Note 1: Percentage growth calculated versus ARR at 6 August 2018 being the date of acquisition of the Group's Dutch spend management business, Esize.

The Board is pleased with the performance of the United Kingdom and Netherlands business segments which have both delivered strong year on year increases in ARR and looks forward to even stronger performance in future years.

During late 2017 and through 2018, the Group experienced a significant level of customer churn and a lack of new customers in its French, German and US spend management businesses which has been described at length in previous reports. This culminated in leadership change and the operational review the result of which was outlined in the Group's interim results in April 2019. At that time the Board announced certain actions that were required to be taken in order to move those businesses to growth and therefore to shareholder value creation. Each of these actions and the current status of activity are described below within the Summary of the Operational Review.

Performance review

The Group uses the rate and value of new deal intake and up-sell activity as primary indicators of value creation.

The Group secured an aggregate total contract value ('TCV') of £11.3m (2018: £12.1m). This TCV was delivered from 60 new name customers (2018: 64) of which 55 (2018: 55) were subscription deals and aggregate TCV was £6.4m (2018: £8.7m). The number of up-sell deals sold to existing customers remained at the strong levels experienced in the prior year and increased to 127 (2018: 113) and the TCV was £4.9m (2018: £3.4m).

Note: The definition of segment is described in detail in the Chief Financial Officer's report	Year ended 31 July 2019		Year ended 31 July 2018	
	TCV of new name deals	Number of new name deals	TCV of new name deals	Number of new name deals
United Kingdom	£3.1m	41	£5.2m	45
France & Germany	£0.7m	5	£0.8m	7
United States	£1.0m	4	[1]£2.7m	[1]12
Netherlands	£1.6m	10	-	-

Note 1: For 2018, the US segment includes 7 new name deals (with an TCV of £0.8m) from the Group's US based reverse auctions business which was included within the UK segment during the prior year.

Note: The definition of segment is described in detail in the Chief Financial Officer's report	Year ended 31 July 2019		Year ended 31 July 2018	
	TCV of up-sell deals	Number of upsell deals	TCV of upsell deals	Number of upsell deals
United Kingdom	£3.2m	108	£2.5m	99
France & Germany	£0.4m	7	£0.9m	14
United States	£0.6m	5	-	-
Netherlands	£0.7m	7	-	-

The Board is satisfied with the level and value of new names and up-sell deals during the year in the United Kingdom and Netherlands business segments although it notes that the performance of the United Kingdom should improve through a strengthened marketing team and pipeline coming into the current financial year. The Board is, however, disappointed with the level of deal intake in the French and German business segment and, particularly, in the United States (US) business segment. Following the completion of the Operational Review described below, the Board is now confident that actions have been taken that are designed to shift these business segments towards a position where the Group can exploit the significant market opportunity open to it and the Board is pleased with the early positive indicators of energy levels in the commercial teams and pipeline growth.

Whilst the volume and value of new business and upsells are good indicators of market traction and growth, the retention of existing customers remains of vital importance to short-term revenue and long-term value protection. The performance of the Group in this area, and specifically the French, German and US segments has been poor over the last two financial years. The Board has assessed the risk of further churn within the customer base of those segments and has quantified it (see below) and is confident that this level of risk is now normalised. In addition, the Group has plans to mitigate these risks through the Group's commercial teams. The Board believes that following the outcomes of the Operational Review, the actions put in place will improve customer retention.

The Group Adjusted EBITDA *(see additional information)* was £15.1m (2018: £17.3m), in line with revised expectations (Reported EBITDA of £13.9m and Loss Before Tax of £25.8m is shown further within the CFO Report). Group Adjusted EBITDA margin decreased to 28% (2018: 33%). Further, the Group Adjusted Free Cash Flow was £6.9m (2018: £8.5m). The Board considers this financial performance to be in line with expectations and that it positions the Group well going forward.

Goodwill impairment testing resulted in the need to impair goodwill in the US Cash Generating Unit by the amount of £27.0m due to the performance issues experienced in that territory. The United Kingdom, Netherlands and Rest of Mainland Europe CGUs showed headroom in these calculations. This follows the already announced challenges faced in the US and outlined in the interim results earlier this year.

The 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 Chief Financial Officer's report and Additional information – Reconciliation of alternative performance measures.

Summary of the Operational Review
Following the Operational Review, the Group designed actions to enable the Group to replicate the strong performance of its United Kingdom and Netherlands business segments in each of its French, German and United States business segments.

The actions arising focused on:

- 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

Target market segment and customer profile definition
The Group delivers a significant level of new business from its United Kingdom and Netherlands commercial teams to a 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. This approach allows for a more efficient go to market strategy with an increased likelihood of success and a lower average cost of sale. The Group has now transitioned its new business teams and is focussing its marketing and business development activities on this same market segment and customer profile throughout the Group.

Alignment of product portfolio
As a result of the Group's acquisition history, it has an extensive product portfolio. Whilst many of these products are complementary and offer substantial cross-selling opportunities within the customer base, there is a degree of overlap within the Group's Spend Management solutions. Following the shift to focus on the same specific market segments across all of its international new business opportunities, the Group will be able to better leverage its solution portfolio without detriment to existing customer experience.

Bolstering new business capabilities
The Group's value proposition for its chosen market segment is well established but the marketing and business development resource in the French, German and United States commercial teams has been lacking in maturity, capability and has had insufficient capacity to deliver a sustainable volume of leads of the right quality targeted at the right market segment and customer profile. The Group has now largely completed its restructuring and each of the French, German and United States commercial teams has developed an encouraging pipeline of opportunities. The German commercial team has already completed its first sale during September 2019. The Group anticipates hiring a further two FTEs (full time equivalent employees) within these commercial teams over the coming months to complete this phase of the restructuring before scaling up as pipeline builds further.

Focusing on retention
As described above and previously announced, the Group has experienced a significant level of customer churn and a lack of new customers in its French, German and US business units which has been described at length in previous reports. In addition, the Group undertook a detailed analysis of its remaining customer base with a view to highlighting customers and ARR with a heightened risk of loss. The Board has quantified this heightened risk as approximately £5m of ARR which it considers to be a normal level but which may or may not be lost over the three year period up to and including FY2022.The Board is also making sure actions are in place to mitigate the risk of loss.

The Group has restructured its French, German and United States commercial teams with a view to taking all mitigating actions possible to reduce the risk of customer churn going forward through:

- Greater levels of engagement with existing customers both generally and specifically in the French, German and US commercial teams, including the application of the Group's existing expert advisory capacity in the digital transformation process;
- Better structured and informed account management teams with an aligned incentivisation package for its executives;
- Stronger levels of interaction between the customers and the Group's product management process through the provision of an interactive online tool for customers to propose their product roadmap ideas and for the Group to respond and report on product roadmap progress; and
- More focussed use of the Group's product management capacity on a product roadmap that is more aligned with existing customers requirements.

Driving growth within the existing customer base
The Group’s existing customer base offers a significant opportunity for growth as has been highlighted with the up-sell performance in both the United Kingdom and Netherlands. This growth opportunity has not been fully accessed to date in the US specifically and, to a lesser degree, in the French and German commercial teams.

Accordingly, the strategic focus of those teams has been re-balanced toward up-selling to existing customers as well as winning new customers and, to this end, training in the Group's wider solution portfolio has been delivered to enable the Group's teams to identify customer opportunity with a number of sales of the Group’s scan and capture solution through those commercial teams. In addition, incentive plans have been aligned to achieve greater balance in performance requirements for retention and up-selling.

Active management and leadership
Changes to the leadership team have been completed at both Group level and within the commercial and operational teams

of the French, German and US business units. These changes are designed to bring greater transparency, rigour and commerciality to decision making. As a temporary measure, the United States business segment is being led by the Group's UK Managing Director with close involvement from Tim Sykes and the Group's wider, established leadership team. The Group has also restructured the EU business segment following the end of the financial year into two separate business segments, one for each of the French and German markets, so that those markets can be addressed properly with new personnel leading each of those teams.

Financial position

The Group remained profitable and cash generative and has an established long-term, supportive relationship with its bank, HSBC UK Bank plc, that provides the Group with its commercial banking services, its structured debt facilities and also its Accelerated Payment Facility (as announced on 28 February 2019 as an incremental facility to the existing facilities to support a new product through an early adopter programme).

The net bank debt of the Group has reduced to £36.5m (from £39.3m at 31 January 2019) which remains fully serviced and within covenants. The Board will continue to accelerate the rate of debt reduction through continued tight management of its net operating expenditure where the sourcing of services and the structure of teams or processes is inefficient; and through the focussing of the Group's investment in product development on a tighter product portfolio and on a customer informed roadmap. The Board has previously announced the suspension of the payment of an annual dividend.

Solutions and markets

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 £45.4m (2018: £42.8m). The increase in the year was driven by United Kingdom and Netherlands business segment performance whereas the French, German and United States segments delivered lower revenue than the previous year. The reduction in revenue in these territories is in line with the expectations during the year.

Supplier solutions

The Group provides access to technology that enables suppliers to transact digitally with their customers. This technology 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 tenders from a number of international sources.

Revenues for the year were £8.7m (2018: £9.4m). The Tenders Direct business in the UK delivered a performance broadly in line with the previous year with £3.7m of ARR (2018:£3.8m). Revenue from the French and German business segment were £0.4m lower than the prior year due to a lower number of transactions being generated by suppliers with their customers. The Board is confident that this performance can be reversed as the effect of the influence of digitalisation increases in the core of the Group's customer base.

Financial solutions

During the year, the Group secured a specific committed overdraft facility provided by HSBC UK of £20m to support the delivery of the Group's supplier paid financial solution, "bePayd", which has its own website at www.bepayd.com.

bePayd will enable the Group to fund accelerated payments to suppliers against invoices approved by buyers. The product is not limited to buyers using Proactis' business spend management solutions and can be used by any buyer with any equivalent business spend management or ERP system. This service is multi-faceted in terms of its technological structure and is complete to minimal viable product ("MVP") and is now deployed in a live environment. Over the coming months, the Group intends to identify early adopters to establish referenceability and marketing collateral before scaling up the business development and delivery activities.

The product has already been nominated for two awards before it has been launched and the Board believes that the product has an extremely high potential.

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. However, the "end-to-end" message and tight integration techniques from Proactis mitigate this and positions the Group as a value-led solution against 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 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.

M&A strategy and activity
The Group's M&A strategy continues, notwithstanding the FSP, 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.

However, following the acquisition of Esize in August 2018 the Board is mindful that, despite the 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.

Esize Holdings BV ("Esize")
On 6 August 2018, the Group acquired Esize, a recognised territory leader in the Netherlands. Its solutions cover the full procurement cycle for indirect spend and also provides the Group with additional capabilities in travel and expense management and contract labour management. The Board continues to believe that these capabilities will become increasingly important to its customers going forward. Esize has a SaaS-based business model that is consistent with the Group's and which delivers high levels of contracted annual recurring revenue with high retention rates. Esize has been rebranded as Proactis and the solution is available to all business segments. Its performance has been excellent since the date of acquisition and an analysis of the performance is included within the Chief Financial Officer's report.

Formal Sales Process ("FSP")
The Board has received a number of expressions of interest ("EOIs") following the Company's announcement of the FSP on 29 July 2019 and has carefully reviewed them. This has involved not only reflecting on value, in which regard the Board are grateful for the guidance provided by major shareholders, but also the deliverability of a transaction, the potential buyer's credibility and their intentions for the Group and all its stakeholders. The Board has now made more information available to a short list of those potential buyers via a dataroom and is providing limited access to the Group's management, without prejudicing the Group's ongoing day-to-day operations. As previously advised, the Board reiterates that there can be no certainty that any offer will be forthcoming or the terms of any such offer.

Brexit
The Group has significant operations and customers based within the member states of the European Union ("EU"), United Kingdom and United States. Whilst the Board acknowledges the continued uncertainty around Brexit, 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. However, the matter will continue to be considered during conversations with third party organisations.

Summary and outlook
The performance of the United Kingdom and Netherlands business segments in the core business spend management solutions has been strong with high rates of growth in the Group's primary key performance indicator, ARR.

As previously reported, this level of performance has not been matched within the Group's other business segments and this has resulted in the leadership and commercial teams within those segments being restructured and resourced so that those segments can replicate the systems and processes of the United Kingdom and Netherlands teams which the Board believes will result in an equivalent performance. The Board anticipates that this level of performance will develop over the current and next financial year and is confident that the early indicators of behavioural change, product training and pipeline development are evident and the successful sale to a new customer in Germany supports this assessment. Although too early to conclude, this indicates that the chosen direction is the correct one and this positions the Group well. As this transition will take time to realise, it is even more important to improve on the customer churn of these business segments and management has undertaken a line by line customer churn risk assessment that supports a lower level of churn over the coming years.

The Board is delighted with the operational and technical progress made with bePayd where the Group now has an MVP in a live environment. This represents extremely positive progress in a short period of time and is in line with our revised aggressive timelines. We now look forward to early adoption where the Group can build referenceability and collateral before fast scale-up.

The Board is pleased with the current level of debt reduction and that the Group has been profitable and cash generative during the period under review. Looking ahead, if the current level of performance persists, the Board expects net bank debt to continue to reduce over the coming financial period to relatively conservative levels. This can be enhanced by a controlled approach to management of the Group's operating and product development expenditure.

After a challenging year or so through which excessive customer churn and a lack of anticipated new business has driven loss of value in the Group's French, German and US business segments despite strong performance in its United Kingdom and Netherlands business segments, the Board now believes that it has a strategy that the whole team believes in and can execute efficiently. The Board considers that the early indicators are positive and is pleased with the start of the new financial year, with trading in line with management's expectations. The Group is well positioned and is looking forward to a period of sustainable growth and delivery over the coming years.

By order of the Board

Alan Aubrey
Chairman

Tim Sykes
Chief Executive Officer

31 October 2019 Chief Financial Officer's Report *(forming part of the Strategic Report)*

Results for the year, performance analysis and key performance indicators

Trading
The Group's reported revenues increased by 4% to £54.1m (2018: £52.2m) of which £5.7m was contributed by the Netherlands business segment. The Esize acquisition delivered over 92% of total revenue across this segment.

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 current 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 41% (2018: 45%).

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

	Year ended 31 July 2019	Year ended 31 July 2018	Year ended 31 July 2017
Reported revenue	£54.1m	£52.2m	£25.4m
Reported revenue growth	4%	106%	31%
CAGR 3-year revenue growth	41%	45%	36%
TCV of new name deals	£6.4m	£8.7m	£4.1m
Number of new name deals	60	64	54
TCV of upsell deals	£4.9m	£3.4m	£2.8m
Number of upsell deals	127	113	110
Total deal value signed	£11.3m	£12.1m	£6.9m
Organic revenue growth[1]	Nil%	Nil%	7%

Note1: Measured in terms of revenue recognised in the income statement and excluding the effects of foreign exchange differences and the full year effect of prior year acquisitions and the in-year effect of current year acquisitions.

The Board considers that retention of existing customers is a key performance indicator and the measure of this indicator is included routinely within its internal financial reporting dashboard.

Revenue by territory segment
The revenue increase in the year was driven by the performance of UK and NL business segments whereas we saw reductions in the buyer revenue profiles of the US territory and buyer and supplier revenue profiles in the EU segment, reflecting the need for the strategic and operational changes that the Board has now put in place in those geographical regions.

The Group's revenues by market segment were:

Year ended 31 July 2019	Buyer revenue £m	Supply revenue £m	Total £m
United Kingdom	19.1	3.9	23.0
France & Germany	8.9	4.8	13.7
United States	11.7	-	11.7
Netherlands	5.7	-	5.7
	45.4	8.7	54.1

Year ended 31 July 2018	Buyer revenue £m	Supply revenue £m	Total £m
United Kingdom	16.2	4.2	20.4
France & Germany	12.0	5.2	17.2
United States	14.6	-	14.6
Netherlands	-	-	-
	42.8	9.4	52.2

Revenue visibility
Annual Recurring Revenue ("ARR") was introduced in the last financial year as a key performance indicator giving the Board

visibility of the Group's annualised run rate of contracted subscription, managed service, support and hosting revenues.

This is crucially important to the Group's stakeholders as it provides a real indicator to:

- Investors of the amount of revenue from new business required to be won in order to hit expectations in future periods;
- The Group's bank, HSBC Bank plc, in its deliberations as to the level of debt that the business can conservatively support and hence assist in the overall return to investors; and
- The Group's customers, suppliers and associates of the overall strength of the Group.

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

As at 31 July 2019	Buyer revenue £m	Supply revenue £m	Total £m
United Kingdom	14.6	3.7	18.3
France & Germany	7.0	4.5	11.5
United States	9.9	-	9.9
Netherlands	4.6	-	4.6
	36.1	8.2	44.3

As at 31 July 2018	Buyer revenue £m	Supply revenue £m	Total £m
United Kingdom	14.1	3.8	17.9
France & Germany	10.9	4.9	15.8
United States	11.0	-	11.0
Netherlands	-	-	-
	36.0	8.7	44.7

The Board acknowledges that this year's revenue performance is below normal levels of retention historically achieved. However, the actions put in place across both US and EU segments plus the performance of the UK and NL segments gives the Board and expectation of a more normalised level of retention is sustainable for the foreseeable future.

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. However, gross margin is 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 gross margin of 88% (2018: 89%) defined as revenue less costs of sales. The slight reduction during the year related to the use of contractors in respect of certain customer contract implementations which the Board does not expect to repeat in the following financial year.

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 £34.1m (2018: £33.0m) with Esize contributing £2.6m (2018: £Nil).

This part of the Group's costs has recently included significant items of income or expenditure associated primarily with the Group's acquisition activity and the resultant integration programme (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 2019 £m	Year ended 31 July 2018 £m
Aggregate of staff costs and other operating expenses (reported)	34.1	33.0
Non-core net expenditure	(1.2)	(3.6)
Aggregate of staff costs and other operating expenses (excluding non-core net expenditure)	32.9	29.4

Non-core net expenditure can be analysed as follows:

	Year ended 31 July 2019 £m	Year ended 31 July 2018 £m
Expenses of acquisition related activities	0.1	0.7
Release of contingent consideration	(0.9)	-
Costs of restructuring the Group's operations – staff	1.6	1.6
Costs of restructuring the Group's operations – other	0.4	1.6
Legal and professional fees	0.4	0.4
Fair value movement on forward contract on acquisition of Perfect	-	(0.7)
Foreign exchange impacts	(0.4)	-
	1.2	3.6

Capitalised development costs and costs of software for own use were £7.6m (2018: £5.7m). The income statement includes a total charge for the amortisation of capitalised development costs and costs of software for own use of £6.7m (2018: £4.7m).

Depreciation of property, plant and equipment
The charge to depreciation of property, plant and equipment increased to £0.6m (2018: £0.5m). The acquisition of Esize did not materially impact this cost.

Amortisation of intangible assets
The charge to amortisation of intangible assets increased to £10.1m (2018: £7.9m) due to the increase in development costs capitalised in the previous year following the Perfect acquisition.

Goodwill is tested for impairment on an annual basis which resulted in the value in use calculations performed as at 31 July 2019 indicating the need to impair goodwill in the United States Cash Generating Unit by the amount of £27.0m. The United Kingdom, Netherlands and Rest of Mainland Europe 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 £1.4m (2018: £1.1m) of which £1.3m (2018: £1.0m) was bank interest arising from the Group's banking facilities. The other element relates to interest from convertible loan notes.

Taxation
The Group has reported a net charge in its income statement of £0.7m (2018: credit £1.6m) resulting primarily from the impact of changes in deferred tax balances (see note 9).

The Group's charge to current year income tax was £0.9m which was an effective rate of 8% against chargeable profit before tax of £11.9m. 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 (2018: £1.4m).

Reported profit and Group Adjusted profit performance
The Board considers that each of the two years ended 31 July 2019 have been significantly impacted by non-core net expenditure incurred primarily as part the Group's acquisition activity and the resultant integration programmes. A summary of the various profit measures is set out below.

	Year ended 31 July 2019		Year ended 31 July 2018	
	[1]Reported	[1]Adjusted	Reported	Adjusted
Earnings before interest, tax, depreciation and amortisation ('EBITDA')[1]	£13.9m	£15.1m	£13.6m	£17.3m
Operating profit/(loss)	(£24.4m)	£8.8m	£4.9m	£13.1m
Profit/(loss) before tax	(£25.8m)	£7.5m	£3.7m	£12.0m
Earnings/(loss) per share (see note 10)	(27.9p)	0.1p	5.4p	10.6p

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

Cash flow
The Group reported net cash from operating activities of £11.9m (2018: £8.4m) which is higher than the reported operating loss of the Group of £24.4m (2018: operating profit of £4.9m). Cash flows for the year ended 31 July 2019 were affected by £0.6m (2018: £3.6m) of costs that were charged in the income statement during the year ended 31 July 2018 and accrued at 31 July 2018 but paid during the year ended 31 July 2019. The cash flow for the year ended 31 July 2019 was also impacted by non-core net expenditure charged to the income statement during the year ended 31 July 2019 related principally to the integration programme.

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

	Year ended 31 July 2019 £m	Year ended 31 July 2018 £m
Reported Net cash flow from operating activities	11.9	8.4
Non-core net expenditure incurred in prior year but paid in current year	0.6	3.6
Non-core net expenditure charged and paid within the same year	2.6	3.3
Adjusted Net cash flow from operating activities	15.1	15.3
Purchase of plant and equipment and intangible assets	(0.6)	(1.1)
Development expenditure capitalised	(7.6)	(5.7)
Adjusted Group Net Free Cash Flow	6.9	8.5

The Group paid a cash dividend of £1.4m (2018: £1.3m) to its equity investors.

Acquisition of Esize

The Group acquired Esize on 6 August 2018 for an aggregate consideration of €14.2m with an additional consideration of up to €1.0m depending on certain post-acquisition deliverables. The net consideration was €14.0m with Esize having cash of €0.2m on its balance sheet at the date of acquisition. As announced in August 2019, Esize has performed in line with the Board's expectations during the period and is therefore expected to crystalize the total amount of deferred consideration. This is fully provided on the Group's balance sheet.

In order to facilitate the acquisition of Esize, the Group extended its bank facilities with HSBC creating a new £50m debt facility including a £15.0m term loan, repayable over four remaining years with a coupon rate of 1.95% over LIBOR, and a £35m revolving credit facility, repayable after four remaining years with a ratcheted coupon rate of at least 1.75% over LIBOR and no higher than 2.5% over LIBOR. Further information is given in note 23 of the Financial Statements.

The cash consideration for the acquisition was funded from the Group's own cash resources and from debt of €9.6m drawn from the extended £50m debt facility provided by HSBC, from and by the issue of a €3.0m of convertible loan notes and by the issue of 1,292,491 new Ordinary shares.

Conversion of loan notes

Convertible loan notes arising from the Perfect acquisition and totalling $1.25m were converted to 590,182 ordinary shares of 10p each in January 2019 as part of an orderly marketing agreement governing the circumstances with which the shares can be disposed of.

Net bank debt

The Group reported net bank debt of £36.5m at 31 July 2019 (2018: £29.3m), comprising cash balances of £7.7m (2018: £9.6m) and gross bank debt of £44.2m (2018: £38.9m) of which £3.2m 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 27.9p (2018: earnings per share 5.4p). The Group reports adjusted loss per share measure (see note 5) of 27.9p per share (2018: earnings per share 10.6p) to take account of non-core net expenditure 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 (2018: 1.5p per ordinary share).

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
31 October 2019

Consolidated Income Statement for the year ended 31 July 2019

	Notes	**2019** **£000**	2018 £000
Revenue	3	**54,140**	52,221
Cost of sales		**(6,659)**	(5,963)
Staff costs		**(22,892)**	(21,670)
Other operating expenses		**(11,231)**	(11,332)
Depreciation of property, plant and equipment		**(608)**	(511)
Amortisation of intangible assets		**(10,136)**	(7,886)
Impairment of goodwill and intangible assets		**(26,999)**	-
Operating (loss)/profit		**(24,385)**	4,859
Finance income		**5**	-
Finance expenses		**(1,440)**	(1,110)
(Loss)/profit before taxation	3	**(25,820)**	3,749
Income tax (charge)/credit	4	**(703)**	1,602
(Loss)/profit for the year		**(26,523)**	5,351
(Loss)/profit attributable to:			
Owners of the Company		**(26,462)**	5,042
Non-controlling interests		**(61)**	309
		(26,523)	5,351
(Loss)/earnings per ordinary share:			
- Basic	5	**(27.9)p**	5.4p
- Diluted	5	**(27.9)p**	5.3p

All of the Group’s operations are continuing.

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 2019

	2019 £000	2018 £000
(Loss)/profit for the period	**(26,523)**	5,351
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Foreign operations – foreign currency translation differences	**(192)**	27
Other comprehensive gain net of tax	**(192)**	27
Other comprehensive income attributable to:		
Owners of the Company	**(249)**	27
Non-controlling interests	**57**	-
	(192)	27
Total comprehensive (loss)/income attributable to:		
Owners of the Company	**(26,711)**	5,069
Non-controlling interests	**(4)**	309
	(26,715)	5,378

The following notes form an integral part of these financial statements

Consolidated Balance Sheet as at 31 July 2019

	Notes	2019 £000	2018 £000
Non-current assets			
Property, plant & equipment		**1,625**	1,499
Intangible assets	6	**136,082**	151,412
Deferred tax asset		**755**	1,360
		138,462	154,271
Current assets			
Trade and other receivables		**23,048**	21,664
Cash and cash equivalents		**7,732**	9,561
		30,780	31,225
Total assets		**169,242**	185,496
Current liabilities			
Trade and other payables		**21,616**	18,023
Obligations under finance leases		**30**	77
Contract liabilities		**17,306**	18,705
Income taxes		**-**	507
Loans and borrowings		**3,181**	2,985
		42,133	40,297
Non-current liabilities			
Contract liabilities		**192**	653
Deferred tax liabilities		**9,153**	8,742
Loans and borrowings		**46,577**	39,766
Obligations under finance leases		**27**	40
Provisions		**656**	783
		56,605	49,984
Total liabilities		**98,738**	90,281
Net assets		**70,504**	95,215
Equity			
Called up share capital		**9,522**	9,324
Share premium account		**83,513**	81,464
Merger reserve		**556**	556
Capital reserve		**449**	449
Equity reserve		**89**	80
Foreign exchange reserve		**(1,386)**	(1,137)
Retained earnings		**(23,839)**	2,875
Equity attributable to equity holders of the Company		**68,904**	93,611
Non-controlling interest		**1,600**	1,604
Total equity		**70,504**	95,215

Consolidated statement of changes in equity
As at 31 July 2019

	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 2017	**5,024**	**17,631**	**556**	**449**	**(1,164)**	**-**	**48**	**22,544**	**-**	**22,544**
Result for the period	-	-	-	-	-	-	5,042	5,042	309	5,351
Other comprehensive income	-	-	-	-	27	-	-	27	-	27
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**27**	**-**	**5,042**	**5,069**	**309**	**5,378**
Shares issued during the period	4,243	63,636	-	-	-	-	-	67,879	-	67,879
Share options exercised	57	197	-	-	-	-	-	254	-	254
Issue of convertible notes	-	-	-	-	-	80	-	80	-	80
Acquisition of subsidiary with NCI	-	-	-	-	-	-	-	-	2,566	2,566
Transactions with NCI	-	-	-	-	-	-	(1,042)	(1,042)	(1,271)	(2,313)
Dividend payment of 1.4p per share	-	-	-	-	-	-	(1,299)	(1,299)	-	(1,299)
Share based payment charges	-	-	-	-	-	-	366	366	-	366
Deferred tax on share options	-	-	-	-	-	-	(240)	(240)	-	(240)
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**

Consolidated Cash Flow Statement for the year ended 31 July 2019

	2019	2018
	£000	£000
Operating activities		
(loss) / Profit for the year	**(26,523)**	5,351
Amortisation of intangible assets	**10,136**	7,886
Impairment of goodwill and intangible assets	**26,999**	-
Depreciation	**608**	511
Net finance expense	**1,435**	1,110
Forward contract provision	**-**	(806)
Income tax charge/(credit)	**703**	(1,602)
Share based payment charges	**541**	366
Operating cash flow before changes in working capital	**13,899**	12,816
Movement in trade and other receivables	**489**	859
Movement in trade and other payables and contract liabilities	**(204)**	(4,015)
Operating cash flow from operations	**14,184**	9,660
Finance expense	**(1,269)**	(804)
Income tax paid	**(995)**	(492)
Net cash flow from operating activities	**11,920**	8,364
Investing activities		
Purchase of plant and equipment	**(586)**	(1,106)
Payments to acquire subsidiary undertakings, net of cash acquired	**(8,365)**	(93,731)
Development expenditure capitalised	**(7,649)**	(5,702)
Net cash flow from investing activities	**(16,600)**	(100,539)
Financing activities		
Payment of dividend	**(1,419)**	(1,299)
Proceeds from issue of shares	**28**	68,133
Receipts from bank borrowings	**10,178**	43,660
Transaction costs related to loans and borrowings	**-**	(288)
Acquisition of NCI	**-**	(2,313)
Repayment of bank borrowings	**(5,286)**	(9,942)
Finance lease payments	**(60)**	(151)
Net cash flow from financing activities	**3,441**	97,800
Effect of exchange rate movements on cash and cash equivalents	**(590)**	(341)
Net (decrease) / increase in cash and cash equivalents	**(1,239)**	5,625
Cash and cash equivalents at the beginning of the year	**9,561**	4,277
Cash and cash equivalents at the end of the year	**7,732**	9,561

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 2019.

The consolidated financial statements of the Group for the year ended 31 July 2019 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 2019 or 2018 but is derived from those financial statements.

Statutory financial statements for 2018 have been delivered to the Registrar of Companies and distributed to shareholders, and those for 2019 will be distributed to shareholders on or before 13 December 2019. 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

The Company has applied IFRS 15 using the retrospective with cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 August 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of the significant changes and quantitative impact of the changes are set out below.

The net adjustment as a result of the adoption of IFRS15 using the retrospective with cumulative effect method at 1 August 2018 was a post-tax credit to reserves of £606,000. This represents a credit in respect of revenue of £990,000, a debit in respect of cost of sales of £242,000 and a debit in respect of deferred tax of £142,000.

The adjustments noted in the table mainly arise from the application of IFRS 15 to customer hosted SaaS contracts with a term greater than 1 year. Application of this standard has resulted in two performance obligations being the point in time supply of a licence and the ongoing performance obligation to provide software support. Previously one performance obligation existed and the full revenue would have been evenly spread over the contract term. The impact has been to bring some revenue forward and therefore has resulted in higher contract assets. The associated business partner commission has also been adjusted with an impact on cost of sales in year and the cumulative deferred contract costs.

	Impact of adoption of IFRS15		
	As reported	**Adjustments**	**Balances without adoption of IFRS 15**
	2019 £000	**2019 £000**	**2019 £000**
Balance sheet			
Trade and other receivables	23,048	903	22,145
Trade and other payables	21,616	271	21,345
Income statement			
Revenue	54,140	(88)	54,228
Cost of sales	(6,659)	29	(6,688)
Cash flow statement			
Profit for the period	476	(59)	635
Movement in trade and other receivables	489	88	401
Movement in trade and other payables and contract liabilities	(204)	(29)	(175)

3. Operating segments

2019	United Kingdom £000	Netherlands £000	Rest of Mainland Europe £000	United States £000	Total £000
SaaS revenue	**20,652**	**4,360**	**12,844**	**10,890**	**48,746**
Services revenue	**2,389**	**1,356**	**837**	**812**	**5,394**
Segment revenue	**23,041**	**5,716**	**13,681**	**11,702**	**54,140**
Direct costs	**(9,123)**	**(2,846)**	**(5,712)**	**(5,919)**	**(23,600)**
Segment contribution	**13,918**	**2,870**	**7,969**	**5,783**	**30,540**
2018					
SaaS revenue	18,006	-	16,009	13,622	47,637
Services revenue	2,366	-	1,199	1,019	4,584
Segment revenue	20,372	-	17,208	14,641	52,221
Direct costs	(8,731)	-	(5,296)	(6,001)	(20,028)
Segment contribution	11,641	-	11,912	8,640	32,193

As a result of the acquisition of Esize during the financial year, the Group has increased its number of reportable segments.

Reconciliations of information on reportable segments to IFRS measures

	2019 £000	2018 £000
Total contribution reportable segments	**30,540**	32,193
Central costs (including non-core net expenditure)	**(16,631)**	(18,571)
Depreciation	**(608)**	(511)
Amortisation and impairment	**(10,136)**	(7,886)
Impairment of goodwill	**(26,999)**	-
Share based payments charges	**(541)**	(366)
Net interest cost	**(1,435)**	(1,110)
Consolidated (loss) / profit before tax	**(25,820)**	3,749

4. Taxation – Reconciliation of effective tax rate

Reconciliation of effective tax rate

	2019 £000	2018 £000
(Loss)/profit before tax for the period	**(25,820)**	3,749
Tax using the UK corporation tax rate of 19% (2018: 19%)	**(4,906)**	712
Effect of differential foreign tax rates	**(492)**	(13)
Adjustments in respect of prior periods	**166**	(234)
Disallowable net expenses	**5161**	64
Losses used not previously recognised[2]	**(530)**	(1,342)
Relief from governmental tax incentives[1]	**(323)**	(210)
Effect of change in tax rates on deferred tax (see below)	**(84)**	(1,430)
Current year losses for which no deferred tax asset is recognised	**1,485**	555
Adjustments in respect of share-based payments	**226**	296
Total tax (credit)/charge	**703**	(1,602)

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.

	2019	2018
(Loss)/profit for the year attributable to owners of the Company (£000)	**(26,462)**	5,042
Post tax effect of non-core net expenditure (see additional information)	**700**	3,417
Post tax effect on customer related intangible assets	**3,454**	3,240
Post tax effect on impairment of goodwill	**26,999**	
Post tax effect of share-based payment charges	**541**	366
Post tax effect of convertible loan note interest	**113**	75
Non-recurring tax factors	**873**	(2,261)
Post tax effect of adjusted earnings (£000)	**6,218**	9,879
Weighted average number of shares (number '000)	**94,913**	92,893
Dilutive effect of share options (number '000)	**1,771**	2,243
Fully diluted number of shares (number '000)	**96,684**	95,136
Basic (loss)/earnings per ordinary share (pence)	**(27.9)p**	5.4p
Adjusted earnings per ordinary share (pence)	**6.6p**	10.6p
Basic diluted (loss)/earnings per ordinary share (pence)	**(27.9)p**	5.3p
Adjusted diluted earnings per ordinary share (pence)	**6.4p**	10.4p

6. Intangible assets

	Goodwill £000	Customer related intangibles £000	Development costs £000	Software for own use £000	Total £000
Cost					
At 31 July 2017	20,870	16,080	11,965	3,069	**51,984**
Internally developed	-	-	4,842	369	**5,211**
On acquisitions	85,802	23,220	5,759	176	**114,957**
Additions	-	-	417	74	**491**
Effect of movements in exchange rates	-	-	11	-	**11**
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**
Amortisation and impairment					
At 31 July 2017	-	3,453	8,144	1,759	**13,356**
Amortisation for the year	-	3,202	4,002	682	**7,886**
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**
Carrying amounts					
At 31 July 2018	106,672	32,645	10,848	1,247	151,412
At 31 July 2019	**88,759**	**32,222**	**14,256**	**845**	**136,082**

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

2019	**United Kingdom £000**	**Netherlands £000**	**Rest of Mainland Europe £000**	**United States £000**	**Total £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**
2018					
Goodwill	44,508	-	23,652	38,512	106,672
Other intangible assets	16,307	-	12,373	16,060	44,740
Total intangible assets	60,815	-	36,025	54,572	151,412

6. **Intangible assets (continued)**

Following the acquisition of Esize Holdings BV, the Group reassessed the appropriateness of existing CGUs. As a result of this assessment an additional CGU for the Netherlands has been added to the existing CGU's (existing CGUs being United Kingdom, United States and Rest of Mainland Europe). These four CGUs reflect the reportable segments used by the Group. The Netherlands CGU incorporates the assets and cashflows associated with Proactis Benelux BV and Esize Holdings BV which are both based in the Netherlands and managed as one reportable segment.

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 assts 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, Netherlands, Rest of Mainland Europe and United States.

The value in use calculations are based upon detailed budgets and forecasts prepared over a 3 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:

	2019	2018
	%	%
Long term growth rate	**2.00**	2.00
Discount rate (pre-tax rate) UK CGU	**11.47**	10.69
Discount rate (pre-tax rate) NL CGU	**12.25**	-
Discount rate (pre-tax rate) EU CGU	**11.86**	13.33
Discount rate (pre-tax rate) US CGU	**16.51**	13.29
Budgeted revenue growth rate (average of next 3 years)	**3.58**	3.51
Budgeted staff costs growth rate (average of next 3 years)	**2.00**	2.00

The Directors' key assumptions relate to revenue growth, length of contract, gross and operating margins and discount rate.

The value in use calculations performed as at 31 July 2019 which were sensitised for reasonably possible changes in key assumptions indicated the need to impair goodwill in the United States CGU to the amount of £27.0m. The United Kingdom, Netherlands and Rest of Mainland Europe showed headroom in these calculations.

A 0.1% movement in the discount rate or a 3% reduction in initial revenue growth would remove the headroom in the United Kingdom CGU. A 0.2% movement in the discount rate or a 9% reduction in initial revenue growth would remove the headroom in the Netherlands CGU. A 0.2% movement in the discount rate or a 5% reduction in initial revenue growth would remove the headroom in the Rest of Mainland Europe CGU; and a 0.1% movement in the discount rate or a 1% reduction in initial revenue growth would lead to a further impairment in the United States CGU.

7. Net debt

Non-current	**2019 £000**	2018 £000
Secured bank loans	**41,034**	35,918
Convertible notes	**5,543**	3,848
Finance lease liabilities	**27**	40
Total non-current	**46,604**	39,806
Current		
Secured bank loans	**3,181**	2,985
Finance lease liabilities	**30**	77
Total current	**3,211**	3,062
Total borrowings	**49,815**	42,868
Less:		
Cash and cash equivalents	**7,732**	9,561
Net debt	**42,083**	33,307
Bank net debt	**36,483**	29,344

8. Acquisitions

On 6 August 2018, the Group acquired 100% of the voting equity interests of Esize Holdings BV ('Esize').

For the 12 months ended 31 July 2019, Esize Holdings BV LLC and its subsidiary contributed revenue of £5,263,000 and profit before tax of £756,000. This does not factor in the amortisation of intangible assets that will now be recognised in the Group accounts.

The following table summarises the acquisition date fair value of each major class of consideration transferred.

	£000
Cash	8,575
Ordinary shares issued	1,396
Convertible loan note	2,680
Contingent consideration	893
Settlement of pre-existing relationship	(65)
Total consideration transferred	13,479

The Group has issued €3,000,000 in convertible loan notes with a redemption date of August 2023.

Esize Holdings BV had outstanding debts of €73,000 with its previous owner at the time of acquisition. The Group has attributed £65,000 of the consideration transferred to the settlement of this debt.

The contingent consideration is calculated based on the estimated likelihood of Esize achieving certain revenue targets in the 12 months to 31 July 2019. As these targets have been met, the full amount of contingent consideration will be converted to convertible loan notes post 31 July 2019.

The Group incurred acquisition-related costs of £300,000 on legal fees and due diligence costs. These costs were incurred in both the current and prior financial years.

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition.

8. Acquisitions (continued)

	Fair value £000
Property, plant and equipment	114
Customer related intangible assets	3,056
Capitalised development costs	1,505
Other intangible assets	90
Trade and other receivables	753
Cash	210
Trade and other payables	(571)
Deferred revenue	(261)
Deferred tax liabilities	(503)
Total identifiable net assets acquired	4,393

The fair value adjustments relate to the recognition of intangible assets in accordance with IFRSs.

Pre-acquisition carrying amounts were determined based on applicable IFRSs, immediately prior to the acquisition. The values of assets and liabilities recognised are estimated fair values.

Goodwill arising from the acquisition has been recognised as follows:

	£000
Consideration transferred	13,479
Fair value of identifiable net assets	(4,393)
Goodwill	9,086

The goodwill is attributable to the skilled labour force of the acquired business, expected future growth and enhancement of market share. These values were not recognised as a separate intangible asset on the basis that they could not be separated from the value generated from the business as a whole. None of the goodwill recognised is expected to be deductible for tax purposes.

In the prior year, on 4 August 2017, the Group acquired 100% of the voting equity interests of Perfect Commerce LLC. This meant the Group also acquired 78.95% of the voting equity interests of Hubwoo SA.

For the 12 months ended 31 July 2018, Perfect Commerce LLC and its subsidiaries contributed revenue of £26,418,000 and profit before tax of £2,167,000. This does not factor in the amortisation of intangible assets that will now be recognised in the Group accounts.

The following table summarises the acquisition date fair value of each major class of consideration transferred.

	£000
Cash	93,985
Convertible notes	3,836
Contingent consideration	3,836
Settlement of debt	(13,077)
Total consideration transferred	88,580

The Group agreed to pay the selling shareholders in December 2017 additional consideration of $5,000,000 if certain conditions were met. The Group has included £3,836,000 as contingent consideration related to the additional consideration, which represents its fair value at the date of acquisition.

The Group has issued $5,000,000 in convertible loan notes with a redemption date of August 2022.

Perfect Commerce LLC had outstanding debts of $17,044,000 with its previous owner at the time of acquisition. The Group has attributed £13,077,000 of the consideration transferred to the settlement of this debt.

The Group incurred acquisition-related costs of £3,055,000 on legal fees and due diligence costs. These costs were accrued in the year ended July 2017.

8. Acquisitions (continued)

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition.

	Fair value £000
Property, plant and equipment	564
Customer related intangible assets	23,220
Capitalised development costs	5,759
Other intangible assets	176
Deferred tax assets	619
Trade and other receivables	16,510
Cash	4,525
Finance lease liabilities	(169)
Trade and other payables	(27,861)
Deferred revenue	(7,464)
Deferred tax liabilities	(8,531)
Total identifiable net assets acquired	7,348

The fair value adjustments relate to the recognition of intangible assets in accordance with IFRSs.

Pre-acquisition carrying amounts were determined based on applicable IFRSs, immediately prior to the acquisition. The values of assets and liabilities recognised are estimated fair values.

Goodwill arising from the acquisition has been recognised as follows:

	£000
Consideration transferred	88,580
NCI, based on their proportionate interest in the recognised amounts of the net assets of the Hubwoo subgroup	2,566
Fair value of identifiable net assets	(7,348)
Goodwill	83,798

The goodwill is attributable to the skilled labour force of the acquired business, expected future growth and enhancement of market share, cross selling opportunities and economies of scale available to Perfect and Hubwoo within Proactis. These values were not recognised as a separate intangible asset on the basis that they could not be separated from the value generated from the business as a whole.

In the prior year, on 24 October 2017, the Group acquired 100% of the voting equity interests of Proactis Benelux B.V.

For the 9 months ended 31 July 2018, Proactis Benelux B.V. contributed revenue of £345,000 and a loss before tax of £150,000.

The following table summarises the acquisition date fair value of each major class of consideration transferred.

	£000
Cash	448
Contingent consideration	1,500
Total consideration transferred	1,948

The Group has recognised £1,500,000 contingent consideration which represents its fair value at the date of acquisition. The contingent consideration is calculated based on the estimated value of contracts that may be agreed between Proactis Benelux BV and certain potential new customers and the likelihood of those potential new customers entering into those contracts. The fair value of this contingent consideration had not changed at 31 July 2018.

The Group incurred acquisition-related costs of £67,000 on legal fees and due diligence costs. These costs have been included in ‘other operating expenses’.

8. Acquisitions (continued)

The following table summarises the recognised amounts of assets acquired, and liabilities assumed at the date of acquisition.

	Fair value £000
Property, plant and equipment	3
Trade and other receivables	342
Cash	13
Borrowings	(18)
Trade and other payables	(314)
Deferred revenue	(82)
Total identifiable net liabilities acquired	(56)

Goodwill arising from the acquisition has been recognised as follows:

	£000
Consideration transferred	1,948
Fair value of identifiable net liabilities	56
Goodwill	2,004

The goodwill is attributable to the skilled labour force of the acquired business, expected future growth and enhancement of market share, cross selling opportunities and economies of scale available to Proactis Benelux B.V. within Proactis. These values were not recognised as a separate intangible asset on the basis that they could not be separated from the value generated from the business as a whole. None of the goodwill recognised is expected to be deductible for tax purposes.

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	(26,523)	(26,523)	(26,523)	(26,523)
Add back:				
Tax charge	703	703	703	703
Net interest charge	1,435	1,435	1,435	-
Share-based payment charges	541	541	541	541
Amortisation	10,136	10,136	-	-
Impairment of goodwill and intangible assets	26,999	26,999	26,999	26,999
Depreciation	608	608	-	-
Non-core net expenditure	-	1,166	1,166	1,166
Interest charged on convertible loan notes issued in respect of the acquisitions of Perfect Commerce and Esize	-	-	-	139
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
	13,899	**15,065**	**8,804**	**7,508**

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.

	2019	2018
	£000	£000
(Loss)/profit before taxation	**(25,820)**	3,749
Adjustments for:		
Net finance costs	**1,435**	1,110
Depreciation	**608**	511
Amortisation	**10,136**	7,886
Impairment of goodwill and intangible assets	**26,999**	-
Share based payment charges *	**541**	366
Non-core net expenditure **:		
Costs of restructuring the Group's operations – staff ***	**1,533**	1,638
Costs of restructuring the Group's operations – other ****	**427**	1,561
Expenses of acquisition related activities	**128**	732
Release of contingent consideration	**(914)**	-
Legal and professional fees	**417**	439
Fair value movement on forward contract for acquisition *****	**-**	(735)
Non-core foreign exchange impacts ******	**(425)**	-
Adjusted EBITDA	**15,065**	17,257

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 resultant 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.

***** The fair value movement on the forward contract provision is included within other operating expenses in the consolidated income statement.

****** 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.