25 July 2019

NCC Group plc
Preliminary results for the year ended 31 May 2019

Robust global revenue growth, profitability and cash improvement during first full year of operational transformation

NCC Group plc (LSE: NCC, "NCC Group" or "the Group"), an independent global cyber security and risk mitigation expert, reports its full year results for the 12 months to 31 May 2019 ("the full year", "FY", "the Period").

Financial highlights [1]

- Revenue from continuing operations globally increased by 7.6% to £250.7m (2018: £233.0m [2])
  - Assurance revenue increased by 9.7%, with North America and Europe and RoW increasing by 23.4% and 12.9% respectively, while UK declined by 1.1%
  - Escrow revenue declined by 2.8% to £38.0m, with North America increasing by 10.7% offset by a decline in the UK by 6.5%
- Gross margin and adjusted operating profit margins [3] at 40.6% (2018: 41.2%) and 13.4% (2018: 13.2%) respectively
  - Gross margin within Assurance increased by 0.6% pts to 34.6%
  - Escrow gross margin decreased by 2.0% pts to 74.5%
- Operating profit from continuing operations increased by 44.4% to £19.5m (2018: £13.5m [2]), and adjusted operating profit [3] increased by 9.4% to £33.7m (2018: £30.8m [2], H1 FY19: £14.8m)
- Profit before taxation increased by 52.1% to £17.8m (2018: £11.7m [2]), and adjusted profit before taxation [3] increased by 9.2% to £32.0m (2018: £29.3m [2])
- Statutory basic earnings per share from continuing operations of 4.9p (2018: 4.4p [2]), adjusted basic earnings per share from continuing operations [3] increased by 12.2% to 9.2p (2018: 8.2p [2])
- Net debt [3] reduced to £20.2m (2018: £27.8m, H1 FY19: £45.1m), cash flow from operating activities before interest and taxation increased by 21.3% to £47.9m (2018: £39.5m) and cash conversion [3] increased to 109.6% (2018: 90.2% [2], H1 FY19: 58.0%)
- Total dividend maintained at 4.65p per share (2018: 4.65p) with final dividend proposed of 3.15p per share (2018: 3.15p)

Operational highlights

- Assurance division continues to achieve good revenue growth (+9.7%) and global headcount in the technical teams is now at the levels required to satisfy current demand
- Escrow division revenues have decreased over the year (-2.8%), with North America up 10.7%, but UK down 6.5%. However, focused recruitment means sales teams enter the new financial year at full strength
- New Cloud-resilience Escrow-as-a-Service ("EaaS") offering, aimed at the fast-growing cloud software market, launched during spring 2019 with encouraging initial demand
- Strong financial position with effective cash management reducing net debt below prior-year to £20.2m, gearing equating to 8.7% (2018: 11.9%) and post year-end, a new £100m multi-currency revolving credit facility obtained to June 2024 on similar terms to previous facility
- Comprehensive systems upgrade programme continues on time and within budget

Outlook

- Regulatory pressure and high-profile breaches continue to increase the strategic importance and value of cyber security in our target markets
- Three-year transformation, Securing Growth Together ("SGT"), progressing on time and within budget to create the next version of NCC Group
- We look forward with confidence to a dynamic year and expect full year trading to be in line with our expectations

1 References to the Group's results, unless stated to the contrary, are to continuing operations only and exclude discontinued activities.
2 See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15.
3 See note 2 for an explanation of Alternative Performance Measures ("APMs") and adjusting items. See note 2 for a reconciliation to statutory information.
4 Leverage is defined as the ratio of total Net Debt to Adjusted EBITDA and Interest Cover is defined as the ratio of Adjusted EBITDA to net finance charges.

Adam Palser, Chief Executive Officer, commented:

"This has been a pivotal year in NCC Group's transformation as we lay the foundations to enable us to compete and win globally, delivering on our mission to make the world safer and more secure.

We have grown and strengthened our teams at all levels of the organisation, improved our financial and operational management, and with the accelerated deployment of our new systems the next version of NCC Group is rapidly taking shape.

We look forward with confidence to a dynamic year where we consolidate our global propositions, develop our new cloud-resilience Escrow-as-a-Service offering, and improved performance in all our core businesses and markets."

Cautionary note regarding forward-looking statements

This announcement includes statements that are forward looking in nature. Forward-looking statements involve known and unknown risks, assumptions, uncertainties and other factors which may cause the actual results, performance or achievements of the Group to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Except as required by the Listing Rules, Disclosure and Transparency Rules and applicable law, the Group undertakes no obligation to update, revise or change any forward-looking statements to reflect events or developments occurring on or after the date such statements are published.

Analyst briefing

A briefing for analysts will be held today at 9am at the offices of Maitland AMO, 3 Pancras Square, London N1C 4AG. The briefing will also be webcast live and can be accessed via the Group's website or via the following: https://www.investis-live.com/nccgroup/5cffb21f9add6d1100a07fb2/ytre.

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Chief Executive Officer's review

A year of progress in results and transformation

Over the past 12 months, NCC Group has grown revenue, profit and cash flow while making significant progress through its transformation programme. Revenue on a continuing basis was up 7.6% and adjusted operating profit [3] increased by 9.4%, while the Group also delivered improved cash flow with cash conversion [3] of 109.6% compared to 90.2% [2] in FY18. On a statutory basis, operating profit increased by 44.4% to £19.5m (2018: £13.5m [2]) and profit before taxation increased 52.1% to £17.8m giving rise to a basic adjusted EPS [3] and statutory EPS from continuing operations of 9.2p (2018: 8.2p [2]) and 4.9p (2018: 4.4p [2]) respectively.

These results have been achieved alongside significant transformation activity (described below) which is building a strong platform for future scalable growth and margin improvement.

I am particularly pleased with the progress made in the second half in two critical areas for NCC Group. First, the improvement in our cash management processes which has led to a sustainable reduction in our working capital and a year-end net debt [3] position of £20.2m (compared to £27.8m at the end of FY18 and £45.1m at the end of H1 FY19). Second, after a first half in which we were unable to resource all of our opportunities because of skill shortages, we have rebuilt the capacity of our technical cyber teams within the Assurance division. Headcount in our Assurance technical delivery teams increased by 102 people across the world to 1,047, which means that we are well positioned to deliver further growth. Given the scarcity and demand for cyber skills, our ability to attract sufficient specialists is a pleasing endorsement of our progress towards being the employer of choice for cyber talent.

Our Assurance business continues to operate in a growing and dynamic market

Demand for cyber services continues to grow globally, driven by:

1. The increasing number of connected devices and services;
2. The growing dependence of individuals, businesses and society on this connected environment;
3. The proliferation of threats and threat actors; and
4. The relentless increase in regulation and consequent costs of compliance failure.

Thanks to this growing global demand, the cyber market continues to attract massive investment from system integrators, defence companies, consulting firms and private equity or venture capital technology and/or security firms. In this intensely competitive market, NCC Group continues to demonstrate sustainable, profitable growth and this is in no small part due to our world-leading and cost-effective approach to research. Our talented employees continue to discover key vulnerabilities in existing and new technologies – from printers to blockchain – which allow us to educate and protect our clients thereby monetising our knowledge.

Across different geographies we observed variability in demand growth: NCC Group grew 23.4% in North America, 12.9% across continental Europe and Asia-Pacific but only 3.1% in the UK (after taking into account a reduction of £3.6m in UK product sales, which is a consequence of our deliberate move away from low-margin re-selling).

We attribute the strong growth in North America partly to growing demand from a thriving ecosystem of "technology producers" for whom privacy and security are of existential importance, and partly to the work we have done over the last 12 months to build a powerful and empowered North American business.

Cross-region delivery in our technical security consulting teams increased by 31% in support of sales growth around the world, which evidences our maturing ability to deploy resources globally.

We intend to return all parts of our Assurance business to double-digit growth in the year ahead, and a key success factor for achieving this goal is attracting and retaining sufficient talent. I am consequently pleased to report that attrition in our Technical Security Consulting teams dropped from 24.9% in FY18 to 17.9% in FY19. Overall, attrition in our Assurance business was 19.8% (FY18: 23.2%), driven in particular by attrition of 28.6% in our sales teams, which was largely the consequence of more vigorous performance management as we seek to upgrade our sales capabilities.

While our current focus is on strengthening and growing our organic operations we will take advantage of acquisition opportunities that fit our target profile as and when they present themselves.

Escrow a year of transition

Revenue in our Escrow business declined 2.8% over the course of the financial year with a 6.5% decline in the UK outweighing an encouraging 10.7% increase in North America.

Although our current Escrow business is dominated by on-premise software solutions – and it is true to acknowledge that on-premise software is declining as a proportion of the software market – we observed that the renewal rates for our agreements remained constant at 89.6%. During Q4 FY19, we secured our largest ever on-premise contract win (£800k) with a major international bank which, coupled with our strong North American growth, leads us to believe that Escrow continues to be a good business for NCC Group. We did, however, find the UK market challenging for Escrow this year but, in line with our strategic priority to return the Escrow division to growth, we increased our UK sales team to 44 people in the second half of the year.

Beyond our existing on-premise software escrow solutions, we believe that the need for business resilience is just as relevant – if not more so – in the growing world of cloud services. Towards the end of the financial year, we launched our Escrow-as-a-Service cloud-resilience proposition and are encouraged by initial demand and feedback from the market. Over the course of the coming year, our intention is to prove that our EaaS product is a scaleable high-margin offering which has the potential to match the market penetration of our on-premise solutions. Investment in EaaS market launch may dilute margin temporarily.

Overall, we continue to view the extensive client list and recurring revenue streams of our Escrow division as important assets for the Group and intend to return this business to growth through:

1. Better sales operations, particularly in the UK;
2. International expansion in North America (in particular) and continental Europe; and
3. Developing new offerings that we can sell to our existing client base – of which EaaS is the first.

Our transformation programme: Securing Growth Together ("SGT") and the next version of NCC Group

May 2019 saw the first anniversary of our three-year transformation programme, Securing Growth Together ("SGT").

SGT is the vehicle through which we are executing our strategy and delivering on our priorities. We are making good progress and have successfully achieved our year one milestones. Our SGT programme will result in us having the information we need to run the firm in an assertive and agile way globally and will provide a stable platform for future growth and margin improvement.

Highlights across our five SGT workstreams to date include:

- Develop our People: Consistent global approaches to induction, performance management and leadership have been defined and are ready for FY20 launch. We undertook a Global Employee Engagement survey with Best Companies that led us to identify a number of activities including mentoring and management programmes (currently in pilot) and "NCC Cares", our global wellness initiative. During the year we have also strengthened our leadership with the arrival of Tim Kowalski, Chief Financial Officer, Ian Thomas as Managing Director of Assurance (UK and APAC) and Colin Watt as Chief People Officer.

- Lead the Market: Days invested in research increased globally by 15% resulting in high-impact output across fields including Enterprise Internet of Things ("IoT"), AI/Machine-learning, Smart Cities and Connected Health.

- Win Business: We launched Salesforce in our Assurance division across Europe (including the UK) in June 2019 in conjunction with our Gated Business Lifecycle ("GBL"). The GBL has harmonised the way we go to market across the world, which prepares us further for greater co-operation across geographies. We shall complete the global roll-out in the first half of the next calendar year.

- Deliver Excellence: Performance was supported by increased cross-region global resourcing as our scale allows us to capture market share when others face more pressing delivery resource constraints.

- Support Growth: Seven out of nine of our future core systems are now operational in at least one major region, with the remainder due to roll out progressively over the next financial year. Our Workday installation, which is the largest component, remains on track and has delivered an additional benefit of bringing teams across the world together to define a common way of working across the Group.

Summary, operational priorities and outlook

In summary:

- Robust revenue growth during first year of operational transformation
- Adjusted operating profit margin [3] improved to 13.4% (2018: 13.2% [2]) with strong cash conversion [3] and net debt [3] reduced to £20.2m (2018: £27.8m). On a statutory basis operating profit margin increased to 7.8% (2018: 5.8%)

Our operational priorities for FY20 include:

- Assurance: continued double-digit growth and margin improvement
- Escrow:
    - Stabilise revenue this year and growth thereafter
    - Accelerating the adoption of our new cloud-resilience (EaaS) proposition
- People: increasing our sales capability and effectiveness, particularly in the UK (where we are rebuilding our sales team) and North America (to support further growth)

Outlook:

- Regulatory pressure and high-profile breaches continue to increase the strategic importance and value of cyber security in our target markets
- Three-year transformation, Securing Growth Together ("SGT"), progressing on time and within budget to create the next version of NCC Group
- We look forward with confidence to a dynamic year and expect full year trading to be in line with our expectations

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Chief Financial Officer's review

Financial information

	2019 Adjusted [3] £m	2019 Adjusting items [3] £m	2019 Statutory £m	2018 Adjusted [3] £m	2018 (restated [2]) Adjusting items [3] £m	2018 Statutory £m
Revenue	**250.7**	**–**	**250.7**	233.0	–	233.0
Cost of sales	**(148.9)**	**–**	**(148.9)**	(137.1)	–	(137.1)
Gross profit	**101.8**	**–**	**101.8**	95.9	–	95.9
Administration expenses	**(68.1)**	**(14.2)**	**(82.3)**	(65.1)	(17.3)	(82.4)
Operating profit	**33.7**	**(14.2)**	**19.5**	30.8	(17.3)	13.5
Net finance costs	**(1.7)**	**–**	**(1.7)**	(1.5)	(0.3)	(1.8)
Profit before taxation	**32.0**	**(14.2)**	**17.8**	29.3	(17.6)	11.7
Taxation	**(6.5)**	**2.2**	**(4.3)**	(6.6)	7.1	0.5
Profit from continuing operations	**25.5**	**(12.0)**	**13.5**	22.7	(10.5)	12.2
Loss from discontinued operations, net of tax	**–**	**–**	**–**	–	(5.5)	(5.5)
Profit for the year	**25.5**	**(12.0)**	**13.5**	22.7	(16.0)	6.7
Earnings per share:						
Basic EPS – continuing	**9.2**		**4.9**	8.2		4.4
Diluted EPS – continuing	**9.1**		**4.8**	8.1		4.4

Continuing revenue	**2019 £m**	2018 (restated [2]) £m	% change
Assurance	**212.7**	193.9	9.7%
Escrow	**38.0**	39.1	(2.8%)
Total – continuing operations	**250.7**	233.0	7.6%

	2019 £m	2018 (restated [2]) £m	% change
Operating profit	**19.5**	13.5	44.4%
Individually significant items	**3.6**	7.6	(52.6%)
Share-based payments	**1.7**	0.3	466.7%
Amortisation of acquired intangibles	**9.0**	9.4	(4.3%)
Profit on disposal of investments	**(0.1)**	–	–
Adjusted operating profit [3]	**33.7**	30.8	9.4%

Adjusted operating profit [3]	**2019 £m**	2018 (restated [2]) £m	% change
Assurance	**22.6**	16.5	37.0%
Escrow	**19.0**	21.9	(13.2%)
Central and head office	**(7.9)**	(7.6)	3.9%
Total – continuing operations	**33.7**	30.8	9.4%
Adjusted operating profit % margin [3] – continuing operations	**13.4%**	13.2%	

Throughout this Chief Financial Officer's review, Alternative Performance Measures ("APMs") are presented as well as statutory measures and these measures are consistent with prior periods. This presentation is also consistent with the way that financial performance is measured by management, reported to the Board, is the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user to understand the financial performance, position and trends of the Group.

For completeness, a reconciliation of Income Statement Alternative Performance Measures [3] to statutory information is shown below:

2019 Continuing operations	**Revenue £m**	**Gross profit £m**	**EBITDA £m**	**Depreciation and amortisation £m**	**Operating profit £m**	**Profit before taxation £m**	**Taxation £m**	**Profit from continuing operations £m**
Adjusted	**250.7**	**101.8**	**43.7**	**(10.0)**	**33.7**	**32.0**	**(6.5)**	**25.5**
Individually significant items	–	–	(3.6)	–	(3.6)	(3.6)	0.5	(3.1)
Share-based payments	–	–	(1.7)	–	(1.7)	(1.7)	(0.1)	(1.8)
Amortisation of acquired intangibles	–	–	–	(9.0)	(9.0)	(9.0)	1.8	(7.2)
Profit on disposal of investments	–	–	0.1	–	0.1	0.1	–	0.1
Statutory	**250.7**	**101.8**	**38.5**	**(19.0)**	**19.5**	**17.8**	**(4.3)**	**13.5**

2018 Continuing operations	Revenue £m	Gross profit £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit from continuing operations £m
Adjusted	233.0	95.9	42.9	(12.1)	30.8	29.3	(6.6)	22.7
Individually significant items	–	–	(7.6)	–	(7.6)	(7.6)	1.5	(6.1)
Share-based payments	–	–	(0.3)	–	(0.3)	(0.3)	0.4	0.1
Amortisation of acquired intangibles	–	–	–	(9.4)	(9.4)	(9.4)	3.8	(5.6)
Unwind of discount on acquisition consideration	–	–	–	–	–	(0.3)	–	(0.3)
R&D prior year tax credits	–	–	–	–	–	–	1.4	1.4
Statutory	233.0	95.9	35.0	(21.5)	13.5	11.7	0.5	12.2

The Group has adopted a full retrospective approach to IFRS 15 "Revenue from Contracts with Customers" and therefore restated the prior year to reflect the updated accounting policies and present a relevant comparative. More details on the restatement are provided in the notes to the consolidated financial statements.

Overview

We have delivered robust financial results during the first year of our transformation.

Group revenue increased by 7.6% to £250.7m. Within this, Assurance revenues increased by 9.7% to £212.7m (2018: £193.9m [2]). North America Assurance and Europe & RoW growth were particularly encouraging at 23.4% and 12.9% respectively, with UK Assurance (including product sales) declining by 1.1%. Escrow revenue was 2.8% behind last year as the UK fell by 6.5%, although North America saw growth of 10.7% as we continue to grow our presence there.

Gross profit increased by 6.2% to £101.8m (2018: £95.9m [2]) with margin percentage amounting to 40.6% (2018: 41.2%), with Assurance margin percentage increasing to 34.6% (2018: 34.0%) and Escrow declining to 74.5% (2018: 76.5%).

Administration expenses remained broadly flat at £82.3m, principally as a result of investment in people and annualisation of occupancy costs offset by process improvements through the SGT programme, lower depreciation and amortisation and adjusting items. Adjusting items decreased from £17.3m to £14.2m.

Adjusted operating profit from continuing operations [3] increased by 9.4% to £33.7m (2018: £30.8m [2]) and operating profit increased by 44.4% to £19.5m (2018: £13.5m [2]). Adjusted depreciation and amortisation amounted to £10.0m (2018: £12.1m) giving rise to Adjusted EBITDA [3] of £43.7m (2018 restated: £42.9m [2]). Adjusted profit before taxation [3] increased by 9.2% to £32.0m (2018: £29.3m [2]). Statutory profit before taxation increased by 52.1% to £17.8m. Adjusted EPS and statutory EPS from continuing operations amounted to 9.2p (2018: 8.2p [2]) and 4.9p (2018: 4.4p [2]) respectively.

We have also reduced net debt [3] to £20.2m from £27.8m (H1 FY19: £45.1m) after net acquisitions/disposal payments of £9.1m (2018: net proceeds received of £6.1m) with gearing reducing to 8.7% (2018: 11.9%). In addition, we have further strengthened our financial position by obtaining a new multi-currency revolving credit facility post year end for £100m with a five-year term up to June 2024 on similar terms. Committed headroom as at 31 May 2019 amounted to £42.7m (2018: £53.7m).

Divisional performance

Divisional performance includes the allocation of certain central costs incurred on behalf of the divisions. These increases are due to the factors noted above. Segmental information is disclosed below:

	2019				2018 [2]			
Continuing operations	**Assurance £m**	**Escrow £m**	**Central and head office £m**	**Group £m**	Assurance £m	Escrow £m	Central and head office £m	Group £m
Revenue	**212.7**	**38.0**	**–**	**250.7**	193.9	39.1	–	233.0
Cost of sales	**(139.2)**	**(9.7)**	**–**	**(148.9)**	(127.9)	(9.2)	–	(137.1)
Gross profit	**73.5**	**28.3**	**–**	**101.8**	66.0	29.9	–	95.9
Gross margin %	***34.6%***	***74.5%***	**–**	***40.6%***	*34.0%*	*76.5%*	–	*41.2%*
General administrative expenses [2]	**(50.9)**	**(9.3)**	**(7.9)**	**(68.1)**	(49.5)	(8.0)	(7.6)	(65.1)
Adjusted operating profit [3]	**22.6**	**19.0**	**(7.9)**	**33.7**	16.5	21.9	(7.6)	30.8
Adjusted operating profit %	***10.6%***	***50.0%***	**–**	***13.4%***	*8.5%*	*56.0%*	–	*13.2%*

Assurance

The Assurance division accounts for 84.8% of continuing Group revenue (2018: 83.2%).

Assurance revenue analysis – by originating country	**2019 £m**	2018 (restated [2]) £m	% change
UK	**88.9**	89.9	*(1.1%)*
North America	**75.5**	61.2	*23.4%*
Europe & RoW	**48.3**	42.8	*12.9%*
Total Assurance revenue	**212.7**	193.9	*9.7%*

As noted above, UK Assurance revenue in the year declined by 1.1% to £88.9m (2018: £89.9m [2]) following a decline in product sales and a number of changes amongst the management and sales teams. After taking into account the reduction of £3.6m in UK product sales (which is a consequence of our deliberate move away from low-margin re-selling), UK revenue increased by 3.1%.

In the year, North America has grown by 23.4% to £75.5m (2018: £61.2m [2]) supported by continued penetration of the technology market. The division continues to push for larger market share with a focus on diversification of markets.

Assurance Europe & ROW grew by 12.9% to £48.3m (2018: £42.8m [2]) with the business now restructured under new leadership into simpler organisation units.

Assurance revenue analysed by type service/product line:

	2019 £m	2018 (restated [2]) £m	% change
Technical Security Consulting ("TSC")	**134.8**	118.8	*13.5%*
Risk Management Consulting	**35.3**	32.5	*8.6%*
Managed Detection & Response ("MDR")	**36.4**	33.3	*9.3%*
Product sales (own and third-party)	**6.2**	9.3	*(33.3%)*
Total	**212.7**	193.9	*9.7%*

Technical Security Consulting, our core professional service grew by 13.5% to £134.8m (2018: £118.8m [2]) as a result of strong growth worldwide, mainly driven by a 22.3% increase in North America and a 17.3% increase in Europe & RoW. Performance was supported by increased cross-region global resourcing as our scale allows us to capture share when others face more pressing resource constraints. Higher average order values supported by certain contract wins also underpinned growth.

Risk management consulting, a service that addresses the business risks of cyber, grew by 8.6% to £35.3m supported by rapid growth of 30.1% in North America although the UK decreased by 2.4% due to a softer market, coupled with sales team attrition in H2 further to the introduction of new leadership.

Managed Detection & Response, a service line that provides operational cyber defence, scanning, simulation and SOC services, grew by 9.3% to £36.4m as the business continued to increase cross-region selling and delivery within a growth market. The Group continues to co-ordinate its global assets from legacy acquisitions, underpinned by closer collaboration between our centres of excellence in Europe and the UK having set a single product development roadmap and offering. The Group launched the first managed service in North America during the year.

The reduction of 33.3% in product sales is a result of the conscious decision to de-emphasise the sale of low margin third-party products.

We continue to prioritise the importance of value-based selling within our Assurance services as demonstrated by our increasing average order value and expect this will have a positive impact in the future. UK and North America average order values increased by 23% and 28% respectively.

Assurance gross profit is analysed as follows:

	2019 £m	2019 % margin	2018 (restated [2]) £m	2018 % margin	% change
UK	**31.0**	***34.9%***	29.8	*33.1%*	4.0%
North America	**25.3**	***33.5%***	20.7	*33.8%*	22.2%
Europe & RoW	**17.2**	***35.6%***	15.5	*36.2%*	11.0%
Assurance gross profit and % margin	**73.5**	***34.6%***	66.0	*34.0%*	11.4%

The growth in revenue and the improvement in gross profit contributed to the improvement in adjusted operating profit [3] (+37.0%) of £6.1m to £22.6m (2018: £16.5m [2]). In addition, adjusted operating profit [3] margin improved to 10.6% (2018: 8.5%).

Escrow

The Escrow division accounts for 15.2% of Group revenues (2018: 16.8%).

Escrow revenue analysis – by originating country

	2019 £m	2018 (restated [2]) £m	% change
UK	**26.0**	27.8	*(6.5%)*
North America	**8.3**	7.5	*10.7%*
Europe & RoW	**3.7**	3.8	*(2.6%)*
Total Escrow revenue	**38.0**	39.1	*(2.8%)*

Escrow revenues analysed by service line:

Escrow services revenue	**2019 £m**	2018 (restated [2]) £m	% change
Escrow contracts	**26.5**	27.9	*(5.0%)*
Verification and other services	**11.5**	11.2	*2.7%*
Total Escrow revenue	**38.0**	39.1	*(2.8%)*

Escrow UK revenue was £26.0m (2018: £27.8m [2]). Escrow UK contract revenues were £18.2m (2018: £19.6m [2]) while renewals have remained at the same level as prior year with just under 90% of all contracts renewed (2018: 89.6%). Underperformance was caused by a weaker sales team not selling enough contracts. Verification and other services decreased by £0.4m to £7.8m (2018: £8.2m [2]). We expect the UK to return to modest growth in the medium term due to investments made in our sales capabilities, capitalising on our market position. UK Escrow sales headcount increased by approximately 50% to 44 people in the second half of this financial year, as capability was rebuilt.

Escrow North America revenues increased by 10.7% to £8.3m (2018: £7.5m [2]). The North American business has benefited from new appointments being made to the sales team, coupled with secondments of experienced UK sales team members. We continue to build our market share in North America underpinned by further initiatives.

Escrow Europe & RoW revenues fell 2.6% to £3.7m (2018: £3.8m [2]). The European business continues to provide a foothold from which to generate growth. Europe, like the North American business unit in the current year, will have sales headcount investment to drive enhanced market share and growth.

During the year, a review of the satellite office in Dubai was carried out and while we do believe there are customer opportunities in the region, we have decided any customers will be serviced from our UK business going forward.

Escrow gross profit is analysed as follows:

	2019 £m	**2019 % margin**	2018 (restated [2]) £m	2018 % margin	% change
UK	**19.7**	***75.8%***	21.9	*78.8%*	*(10.0%)*
North America	**5.7**	***68.7%***	5.3	*70.7%*	*7.5%*
Europe & RoW	**2.9**	***78.4%***	2.7	*71.1%*	*7.4%*
Escrow gross profit	**28.3**	***74.5%***	29.9	*76.5%*	*(5.4%)*

The decline in gross margin percentage is due to higher direct costs to support North American growth and challenges within the UK. The decline in gross margin contributed to a decline in adjusted operating profit [3] (-13.2%) of £2.9m to £19.0m (2018: £21.9m [2]). The adjusted operating profit [3] margin was also impacted by increased investment in support colleagues to professionalise the business resulting in a decline in adjusted operating margin [3] to 50.0% (2018: 56.0%).

Adjusting items [3]

Pre-tax adjusting items are set out below:

	2019 £m	2018 £m
Individually Significant Items	**3.6**	7.6
Share-based payments	**1.7**	0.3
Amortisation of acquired intangibles	**9.0**	9.4
Unwinding of discounts on deferred consideration	**–**	0.3
Profit on disposal of investments	**(0.1)**	–
Total pre-tax adjusting items – continuing operations	**14.2**	17.6

Individually Significant Items ("ISIs") are set out below:

	2019 £m	2018 £m
Securing Growth Together – legacy systems accelerated amortisation (net of R&D tax credit)	**3.8**	–
Loss-making contract	–	2.5
Revisions to deferred and contingent consideration	**(0.8)**	0.6
Restructuring costs	–	1.6
Onerous leases and other property-related costs	**0.6**	2.7
Market-related costs	–	0.2
Total ISIs – continuing operations	**3.6**	7.6

During the year, certain legacy finance and CRM systems amounting to £3.8m have incurred accelerated amortisation, as we implement our comprehensive systems upgrade programme as part of SGT.

Revisions to contingent consideration amounted to £0.8m credit as we agreed our final payment in relation to the historic acquisitions of Payment Software Company Inc. ("PSC") and Virtual Security Research LLC ("VSR") in North America.

Onerous leases and other property-related costs relate to the rationalisation of our property footprint.

Further details of prior year ISIs are provided within the notes to the consolidated financial statements.

In relation to other adjusting items, share-based payments increased during the year, as new schemes have been issued to employees whilst in the prior year it was concluded that a number of historic schemes would not meet scheme performance criteria resulting in a reversal of historic charges.

In addition, amortisation of acquired intangibles relating to customer contracts and relationships amounted to £9.0m (2018: £9.4m).

Net finance costs

Statutory finance costs for the year were £1.7m compared to £1.8m in 2018, with interest cost increasing by £0.2m due to an average higher level of gross debt during the year and a rising US base rate that has underpinned a higher cost of debt on US Dollar denominated loans, offset by a reduction in the unwind of discount on acquisition consideration of £0.3m.

Taxation

The Group's adjusted effective tax rate is 20.3% (2018: 22.5%). The movement in the Group's effective tax rate is mainly due to a decrease in the US Federal corporate tax rate in the prior year. The full year effect of US tax reform is now reflected in this year.

The effective tax rate remains above the UK standard rate of corporation tax of 19%, reflecting the origin of a reasonable proportion of Group profits in overseas territories with higher rates of tax than the UK. Statutory corporate tax rates within North America equate to approximately 26% (Federal and State combined) for the year to 31 May 2019.

The Group's longer term strategy for tax and treasury matters remains that of a low-risk appetite and any new strategies will operate inside those parameters.

Earnings per share (EPS)

	2019 £m	2018 (restated [2]) £m
Statutory earnings – continuing		
Basic EPS	**4.9**	4.4
Diluted EPS	**4.8**	4.4
Statutory earnings – all operations		
Basic EPS	**4.9**	2.4
Diluted EPS	**4.8**	2.4
Adjusted earnings – continuing [3]		
Basic EPS	**9.2**	8.2
Diluted EPS	**9.1**	8.1

Basic adjusted EPS [3] from continuing operations was 9.2p (2018: 8.2p [2]) and on a statutory basis it was 4.9p (2018: 4.4p [2]). The year-on-year increase in EPS reflects the increase in the Group's profitability during the year.

Cash flow and net debt [3]

The table below summarises the Group's cash flow and net debt [3]:

	2019 £m	2018 (restated [2]) £m
Operating cash inflow before movements in working capital	**41.3**	39.8
Changes in working capital	**6.6**	(0.3)
Cash generated from operating activities before interest and taxation	**47.9**	39.5
Interest paid	**(1.7)**	(1.8)
Taxation paid	**(6.4)**	(4.7)
Net cash generated from operating activities	**39.8**	33.0
Net capital expenditure	**(9.1)**	(12.7)
Acquisitions	**(10.9)**	(3.1)
Net proceeds from business disposals (including cash disposed)	**1.8**	9.2
Dividends paid	**(12.9)**	(12.8)
Share issues	**0.3**	1.5
Net movement	**9.0**	15.1
Opening net debt [3]	**(27.8)**	(43.7)
Foreign exchange	**(1.4)**	0.8
Closing net debt [3]	**(20.2)**	(27.8)

Net debt [3] can be reconciled as follows:

	2019 £m	2018 £m
Cash and cash equivalents	**34.9**	21.2
Borrowings	**(55.1)**	(49.0)
Net debt	**(20.2)**	(27.8)

The Group generated £47.9m of cash from operating activities before interest and taxation (2018: £39.5m), an increase of 21.3%. The Group measures how effectively adjusted EBITDA [3] is converted into actual cash flows using the cash conversion ratio [3]. The calculation of the cash conversion ratio [3] is set out below:

Continuing and discontinued	2019 £m	2018 (restated [2]) £m
Net operating cash flow before interest and taxation (A)	**47.9**	39.5
Adjusted EBITDA [3] (B)	**43.7**	43.8
Cash conversion ratio [3] (%) (A)/(B)	**109.6%**	90.2%

The full year figures show a much improved picture on cash performance compared to the half year, reflecting the effort put into improving our processes in the second half across both payables and receivables. Cash conversion [3] for FY20 is expected to normalise and is targeted at broadly 85%.

The increase in tax paid is mainly due to utilisation of North American tax losses in the prior year.

Net capital expenditure was £9.1m (2018: £12.7m), and includes tangible expenditure of £3.0m (2018: £7.7m, largely relating to the new Manchester head office) and capitalised software and development costs of £6.1m (2018: £5.0m), which have increased due to the implementation costs of new systems as part of the SGT programme.

Acquisition expenditure relates to the final payment of deferred cash consideration in respect of Fox-IT of £9.9m (2018: £1.1m) and contingent consideration of £1.0m (2018: £2.0m) in respect of historic acquisitions of PSC and VSR. Net proceeds from business disposals mainly related to deferred consideration receivable from 2017 disposals. In the prior year, the Group received £9.2m mainly in relation to the sale of Web Performance and Software Testing.

Dividend
Dividends of £12.9m paid in the year (2018: £12.8m) comprised the final dividend for 2018 of 3.15p and the interim dividend for 2019 of 1.50p.

The Board is recommending an unchanged final dividend of 3.15p per ordinary share (2018: 3.15p), making a total for the year of 4.65p (2018: 4.65p). This represents a dividend equal to that paid in the prior year as the Board is conscious of the need to invest in the SGT programme and other initiatives to support longer term growth. The dividend policy will therefore continue to remain under review.

The final dividend will be paid on 4 October 2019, subject to approval at the AGM on 25 September 2019, to shareholders on the register at the close of business on 6 September 2019. The ex-dividend date is 5 September 2019.

Financing facilities
The Group is financed through a combination of bank facilities, retained profits and equity.

Prior to and during the year ended 31 May 2019, the Group funded its strategic acquisitions and met its day-to-day working capital requirements via a multi-currency revolving credit facility of £80.0m, a £20.0m multi-currency term loan that amortised by £2.5m every six months and an additional overdraft of £5m. As at 31 May 2019, the Group had committed bank facilities of £97.8m (2018: £102.7m), of which £55.1m (2018: £49.0m) had been drawn under these facilities, leaving £42.7m (2018: £53.7m) of undrawn facilities. These existing arrangements were agreed in November 2015 and were due for renewal in November 2020.

On 10 June 2019, the Group renegotiated its existing term loan and multi-currency revolving credit facilities into a new fully revolving credit facility of £100m with a new five-year term up to June 2024 on similar terms (pricing and covenants). Under the new arrangements the Group can request an additional accordion facility to increase the total size of the revolving credit facility by up to £75m (previously £50m). In addition, the Group has retained its existing overdraft of £5m. Arrangement fees incurred will be amortised over the term accordingly. Historic arrangements fees have been fully amortised.

On our banking covenants, leverage [4] as at 31 May 2019 amounted to 0.5x (2018: 0.9x) and net interest cover [4] amounted to 24.6x (2018: 28.3x). The Group was in compliance with the terms of all its facilities, including the financial covenants, at 31 May 2019 and expects to remain in compliance with the terms going forward. The terms and ratios are specifically defined in the Group's banking documents (in line with normal commercial practice) and are materially similar to GAAP or the Group's Alternative Performance Measures of the same name. The exception is net debt which includes unpaid deferred consideration. These are commercially confidential documents and hence further details of any immaterial differences are not disclosed.

Going concern
The Directors have acknowledged the "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting", published in September 2014.

Our business activities, together with the factors likely to affect our future development, performance and position are set out in the Chief Executive Officer's Review. Our financial position, cash and borrowing facilities are described within this Chief Financial Officer's Review.

The Directors have reviewed the trading, cash flow forecasts and forecast covenants of the Group as part of their going concern assessment and have taken into account reasonable downside sensitivities (including a "no-deal" Brexit scenario) which reflect uncertainties in the current operating environment. The possible changes in trading performance show that the Group is able to operate within the level of the banking facilities and, as a consequence, the Directors believe that the Group is well placed to manage its business risks successfully. After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for a period of at least 12 months. Accordingly, they continue to adopt the going concern basis of accounting in preparing the financial statements.

Principal risks and uncertainties
The Group is subject to risk factors both internal and external to its business, and has a well-established set of risk management procedures. The following risks and uncertainties are those that the Directors believe could have the most significant impact on the Group's business:

- Business strategy;
- Management of strategic change;
- Availability of critical systems;
- Attracting and retaining appropriate staff capacity and capability;
- Cyber risk (including GDPR);
- Quality of management information systems and internal business processes;
- Quality and security management systems; and
- Brexit (as noted below).

Brexit
We continue to plan for Brexit and we have a Brexit Steering Group that meets regularly. As our operations around the world include business entities based in continental Europe we believe NCC Group is structurally resilient to any disruption caused by Brexit. The main risks to our business from Brexit are:

- Any reduction in demand from an economic slowdown; and
- Real or perceived differences in data protection standards which impact our global ways of working.

Directors' responsibility statement
The responsibility statement below has been prepared in connection with the Group's full Annual Report for the year ending 31 May 2019. Certain parts thereof are not included within this announcement.

The Directors confirm to the best of their knowledge:

- The Group financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- The preliminary statement includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Annual Report, taken as a whole, is fair, balanced and understandable, and provides the necessary information for shareholders to assess the Group's position, performance, business model and strategy.

The Annual Report was approved and authorised for issue on behalf of the Board by Adam Palser, Chief Executive Officer and Tim Kowalski, Chief Financial Officer on 24 July 2019.

Consolidated income statement

For the Year ended 31 May 2019

		2019			2018 (Restated [1])		
		Adjusted [2]	Adjusting items [2]	Statutory	Adjusted [2]	Adjusting items [2]	Statutory
	Notes	£m	£m	£m	£m	£m	£m
Continuing operations							
Revenue	3	**250.7**	**–**	**250.7**	233.0	–	233.0
Cost of sales	3	**(148.9)**	**–**	**(148.9)**	(137.1)	–	(137.1)
Gross profit	3	**101.8**	**–**	**101.8**	95.9	–	95.9
Administration expenses [3]	3	**(68.1)**	**(14.2)**	**(82.3)**	(65.1)	(17.3)	(82.4)
Operating profit	3	**33.7**	**(14.2)**	**19.5**	30.8	(17.3)	13.5
Net finance costs		**(1.7)**	–	**(1.7)**	(1.5)	(0.3)	(1.8)
Profit before taxation		**32.0**	**(14.2)**	**17.8**	29.3	(17.6)	11.7
Taxation		**(6.5)**	**2.2**	**(4.3)**	(6.6)	7.1	0.5
Profit from continuing operations		**25.5**	**(12.0)**	**13.5**	22.7	(10.5)	12.2
Loss from discontinued operations, net of tax	4	**–**	**–**	**–**	–	(5.5)	(5.5)
Profit for the year attributable to the owners of the Company		**25.5**	**(12.0)**	**13.5**	22.7	(16.0)	6.7

Earnings per share	7						
Basic EPS – continuing				**4.9p**			4.4p
Diluted EPS – continuing				**4.8p**			4.4p
Basic EPS – discontinuing				**–**			(2.0)p
Diluted EPS – discontinuing				**–**			(2.0)p
Basic EPS – all operations				**4.9p**			2.4p
Diluted EPS - all operations				**4.8p**			2.4p

Consolidated statement of comprehensive income

For the Year ended 31 May 2019

	2019	2018 (Restated [1])
	£m	£m
Profit for the year attributable to the owners of the Company	**13.5**	6.7
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss (net of tax)		
Foreign exchange translation differences	**1.5**	0.3
Total comprehensive income for the year (net of tax) attributable to the owners of the Company	**15.0**	7.0

Footnotes to the Financial Statements and notes to the Financial Statements:

1 See note 1 for further details on the restatement of comparative information due to the retrospective application of IFRS 15.

2 See note 2 for an explanation of Alternative Performance Measures (APMs) and adjusting items. See note 2 for a reconciliation to statutory information.

3 Administrative expenses includes £0.4m (2018: £0.7m) of credit losses on financial assets.

Consolidated balance sheet

At 31 May 2019

	2019	2018 (Restated [1])
	£m	£m
Non-current assets		
Goodwill	**189.4**	187.2
Other intangible assets	**41.8**	52.8
Property, plant and equipment	**16.9**	19.4
Investments	**0.3**	0.4
Deferred tax assets	**1.1**	4.5
Total non-current assets	**249.5**	264.3
Current assets		
Inventories	**0.7**	0.8
Trade and other receivables	**61.6**	66.0
Consideration receivable on disposals	–	1.5
Current tax receivable	**0.6**	–
Cash and cash equivalents	**34.9**	21.2
Total current assets	**97.8**	89.5
Total assets	**347.3**	353.8
Current liabilities		
Trade and other payables	**31.6**	35.7
Borrowings	**5.0**	–
Current tax payable	–	1.3
Provisions	**2.7**	2.6
Consideration on acquisitions	–	11.9
Deferred revenue	**36.2**	30.6
Total current liabilities	**75.5**	82.1
Non-current liabilities		
Borrowings	**50.1**	49.0
Deferred tax liability	**5.4**	9.8
Provisions	**5.5**	6.3
Total non-current liabilities	**61.0**	65.1
Total liabilities	**136.5**	147.2
Net assets	**210.8**	206.6
Equity		
Issued capital	**2.8**	2.8
Share premium	**149.8**	149.5
Merger reserve	**42.3**	42.3
Retained earnings	**(12.0)**	(14.4)
Currency translation reserve	**27.9**	26.4
Total equity attributable to equity holders of the parent	**210.8**	206.6

Consolidated cash flow statement

For the year ended 31 May 2019

	2019	2018 (Restated [1])
	£m	£m
Profit for the year	**13.5**	6.7
Adjustments for:		
Depreciation	**5.6**	6.5
Share-based payments	**1.7**	0.2
Amortisation of acquired intangible assets	**9.0**	9.4
Amortisation of internally developed intangible assets and software	**4.4**	5.9
Net financing costs	**1.7**	1.8
Foreign exchange	**0.2**	–
Individually Significant Items (non-cash impact)	**3.6**	3.5
Profit on disposal of investments	**(0.1)**	–
Loss on disposal of subsidiaries	**–**	6.4
Loss on sale of plant and equipment	**0.2**	–
Research and development tax credits	**(0.3)**	–
Income tax expense/(credit)	**4.3**	(0.6)
Decrease in provisions	**(2.5)**	–
Cash inflow for the year before changes in working capital	**41.3**	39.8
Decrease/(increase) in trade and other receivables	**6.0**	(4.8)
Decrease in inventories	**0.1**	–
Increase in trade and other payables	**0.5**	4.5
Cash generated from operating activities before interest and taxation	**47.9**	39.5
Interest paid	**(1.7)**	(1.8)
Taxation paid	**(6.4)**	(4.7)
Net cash generated from operating activities	**39.8**	33.0
Cash flows from investing activities		
Purchase of property, plant and equipment	**(3.0)**	(7.7)
Software and development expenditure	**(6.1)**	(5.0)
Acquisition of businesses	**(10.9)**	(3.1)
Net proceeds from sale of subsidiaries and investments	**1.8**	9.9
Cash disposed of from sale of subsidiaries	**–**	(0.7)
Net cash used in investing activities	**(18.2)**	(6.6)
Cash flows from financing activities		
Proceeds from the issue of ordinary share capital	**0.3**	1.5
Drawdown of borrowings	**13.0**	7.5
Repayment of borrowings	**(8.6)**	(12.9)
Equity dividends paid	**(12.9)**	(12.8)
Net cash used in financing activities	**(8.2)**	(16.7)
Net increase in cash and cash equivalents	**13.4**	9.7
Cash and cash equivalents at beginning of year	**21.2**	12.3
Effect of foreign currency exchange rate changes	**0.3**	(0.8)
Cash and cash equivalents at end of year	**34.9**	21.2

Reconciliation of net change in cash and cash equivalents to movement in net debt [2]

	2019	2018
	£m	£m
Net increase in cash and cash equivalents	**13.4**	9.7
Change in net debt resulting from cash flows	**(4.4)**	5.4
Effect of foreign currency on cash flows	**0.3**	(0.8)
Foreign currency translation differences on borrowings	**(1.7)**	1.6
Change in net debt [2] during the year	**7.6**	15.9
Net debt [2] at start of year	**(27.8)**	(43.7)
Net debt [2] at end of year	**(20.2)**	(27.8)

Consolidated statement of changes in equity

For the year ended 31 May 2019

	Issued share capital	Share premium	Merger reserve	Currency translation reserve	Retained earnings	Total
	£m	£m	£m	£m	£m	£m
Balance at 1 June 2017 previously reported	**2.8**	**148.0**	**42.3**	**26.1**	**(7.1)**	**212.1**
Change in accounting policies in respect of IFRS 15 (net of tax)	-	-	-	-	(1.4)	(1.4)
Balance at 1 June 2017 (restated [1])	**2.8**	**148.0**	**42.3**	**26.1**	**(8.5)**	**210.7**
Profit for the year (restated [1])	-	-	-	-	6.7	6.7
Foreign currency translation differences	-	-	-	0.3	-	0.3
Total comprehensive income for the year (restated [1])	**-**	**-**	**-**	**0.3**	**6.7**	**7.0**
Transactions with owners recorded directly in equity						
Dividends to equity shareholders	-	-	-	-	(12.8)	(12.8)
Current and deferred tax on share-based payments	-	-	-	-	0.2	0.2
Shares issued	-	1.5	-	-	-	1.5
Total contributions by and distributions to owners	**-**	**1.5**	**-**	**-**	**(12.6)**	**(11.1)**
Balance at 31 May 2018 (restated [1]) and 1June 2018	**2.8**	**149.5**	**42.3**	**26.4**	**(14.4)**	**206.6**
Profit for the year	**-**	**-**	**-**	**-**	**13.5**	**13.5**
Foreign currency translation differences	**-**	**-**	**-**	**1.5**	**-**	**1.5**
Total comprehensive income for the year	**-**	**-**	**-**	**1.5**	**13.5**	**15.0**
Transactions with owners recorded directly in equity						
Dividends to equity shareholders	-	-	-	-	(12.9)	(12.9)
Share-based payments	-	-	-	-	1.7	1.7
Current and deferred tax on share-based payments	-	-	-	-	0.1	0.1
Shares issued	-	0.3	-	-	-	0.3
Total contributions by and distributions to owners	-	**0.3**	-	-	**(11.1)**	**(10.8)**
Balance at 31 May 2019	**2.8**	**149.8**	**42.3**	**27.9**	**(12.0)**	**210.8**

Notes to the preliminary Financial Statements

1 Accounting policies

Basis of preparation

The financial information is derived from the Group's consolidated financial statements for the year ended 31 May 2019, which have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted for use in the European Union, Article 4 of the IAS regulation and those parts of the Companies Act 2006 (the Act) applicable to companies reporting under IFRS. The financial statements have been prepared on the historical cost basis, except for consideration payable on acquisitions that is measured at fair value. The financial statements are presented in Sterling (£m) because that is the currency of the principal economic environment in which the Group operates. The consolidated financial statements were approved by the Directors on 24 July 2019.

The financial information does not constitute statutory accounts within the meaning of section 435 of the Act or contain sufficient information to comply with the disclosure requirements of IFRS. Statutory financial statements for 2018 have been delivered to the Registrar of Companies, and those for 2019 will be delivered in due course. The Company's auditors, KPMG LLP, have given an unqualified report on the consolidated financial statements for the year ended 31 May 2019, which did not include reference to any matters to which the auditors drew attention without qualifying their report and did not contain any statement under section 498 of the Companies Act 2006. Subject to approval by the Company's shareholders, the consolidated financial statements will be filed with the Registrar of Companies following the Company's Annual General Meeting on 25 September 2019.

Brexit

Management has reviewed the potential impact of Brexit on the financial statements. As the Groups' operations around the world include business entities based in continental Europe management believe the Group is structurally resilient to any disruption caused by Brexit. The main risks to the Group from Brexit are any reduction in demand from an economic slowdown and real or perceived differences in data protection standards which impact our global ways of working. On this basis, management have concluded that the impact should be limited, this includes any impact on the IFRS 9 Expected Credit Loss model. Management also note no changes to this assessment from a post balance sheet event perspective.

Application of significant new EU – endorsed accounting standard - IFRS 9 "Financial Instruments"

The Group has adopted IFRS 9. The application of IFRS 9's impairment requirements as at 1 June 2017 resulted in an reallocation of the existing impairment provision between ageing classifications only.

Application of significant new EU – endorsed accounting standard - IFRS 15 "Revenue from contracts with customers"

Background and adoption

IFRS 15 impacts the amount, timing and recognition of revenue and certain associated costs, as well as related disclosures.

The Group has implemented IFRS 15 in the current year and has applied the fully retrospective approach meaning the comparative year has been restated and there has been a one-off cumulative debit to retained earnings relating to transition at 1 June 2017 of £1.4m (net of tax).

IFRS 15 requires the Group to apportion revenue earned from contracts with customers to performance obligations the Group has with its customers.

This is done through applying a five-step model defined in the standard:

- Identify the contract with the customer.
- Identify the performance obligations in the contract.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations in the contract.
- Recognise revenue when (or as) the entity satisfies a performance obligation.

In addition to the changes to revenue recognition described above, IFRS 15 also provides guidance in relation to certain costs incurred obtaining a contract or fulfilling the contract with the customer, requiring such costs to be deferred over time.

The Group put in place a team to assess the impact of IFRS 15 to determine appropriate accounting policies, and implement appropriate systems and processes so as to be able to calculate opening adjustments and maintain ongoing IFRS 15 compliant financial records/disclosures. Assessment was also given to other matters, such as implications for employee remuneration, tax, forecasting and covenant compliance.

Key changes in accounting policy

The key effects of the application of IFRS 15 are as follows:

- For Escrow, the initial set-up exercise is not considered to be a distinct service, and as a result, these fees are now recognised with the rest of the contract with revenue being recognised over time.
- For Assurance, set-up fees charged in respect of initial work and configuration of equipment to allow customers to benefit from a monitoring contract are not considered to be a distinct service and as a result this revenue is now recognised over time with the revenue for the monitoring activity.

In both cases performance obligations are considered to be satisfied over time as the performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

The above key effects have given rise to a restatement of Deferred revenue as outlined below, with no restatements to accrued income.

Practical expedients

The Group has applied the following practical expedients on the application of IFRS 15:

Area	**Qualitative assessment of the impact**
Completed contracts have not been restated that begin and end within the same annual reporting period.	Significant benefit in application due to the high number of contracts within the Group.
Completed contracts that have variable consideration have used the transaction price at the date of the contract was completed rather than estimating variable consideration amounts in the comparative reporting periods.	Incident response contracts are variable in duration due to the unknown emerging cyber risk. On this basis, the expedient simplifies the application of IFRS 15.
For all reporting periods before the transition date, the Group has not disclosed the amount of the transaction price allocated to the remaining performance obligations and an explanation of when the Group expects to recognise that amount of revenue.	Significant benefit in application due to the high number of contracts within the Group.
Cost to obtain a contract that lasts less than one year has been expensed immediately.	Significant benefit in application due to the high number of contracts within the Group.
Contracts with similar terms and features have been treated on a portfolio basis as opposed to individual assessment.	Significant benefit in application due to the large range of small contracts with identical terms and conditions.
Significant financing component within contracts.	Limited relevance due to the nature of contracts.

Consolidated income statement financial impact

Segmental analysis 2018	**Escrow £m**	**Assurance £m**	**Central & Head Office £m**	**Group £m**
Revenue:				
Revenue previously reported	38.8	194.4	–	233.2
Adjustment on application of IFRS 15	0.3	(0.5)	–	(0.2)
Revenue restated	**39.1**	**193.9**	**–**	**233.0**
Adjusted operating profit:				
Adjusted operating profit [2] previously reported	21.6	17.0	(7.6)	31.0
Adjustment on application of IFRS 15	0.3	(0.5)	–	(0.2)
Adjusted operating profit [2] restated	**21.9**	**16.5**	**(7.6)**	**30.8**

Operating profit:	
Operating profit previously reported	13.7
Adjustment on application of IFRS 15	(0.2)
Operating profit restated	**13.5**

Profit before taxation:	
Profit before taxation previously reported	11.9
Adjustment on application of IFRS 15	(0.2)
Profit before taxation restated	**11.7**

Profit for the year attributable to the owners of the Company:	
Profit for the year previously reported	6.9
Adjustment on application of IFRS 15	(0.2)
Profit for the year restated	**6.7**

Consolidated statement of comprehensive income financial impact

	2018		
	Previously reported £m	**Adjustment on application of IFRS 15 £m**	**Restated balance £m**
Total comprehensive income for the year (net of tax) attributable to the owners of the Company	7.2	(0.2)	7.0

Earnings per Share financial impact

	2018		
	Previously reported	**Adjustment on application of IFRS 15**	**Restated balance**
Statutory profit from - continuing operations (£m)	12.4	(0.2)	12.2
Statutory profit from - all operations (£m)	6.9	(0.2)	6.7
Adjusted [2] profit from continuing operations (£m)	22.9	(0.2)	22.7
Basic weighted average number of shares in issue (m)	277.0	–	277.0
Dilutive effect of share options (m)	2.3	–	2.3
Dilutive weighted average shares in issue (m)	279.3	–	279.3

	2018		
	Previously reported pence	**Adjustment on application of IFRS 15 pence**	**Restated balance pence**
Basic earnings per ordinary share			
Statutory - continuing operations	4.5	(0.1)	4.4
Statutory - all operations	2.5	(0.1)	2.4
Adjusted [2]	8.3	(0.1)	8.2

	2018		
	Previously reported pence	Adjustment on application of IFRS 15 pence	Restated balance pence
Diluted earnings per ordinary share			
Statutory - continuing operations	4.4	–	4.4
Statutory - all operations	2.5	(0.1)	2.4
Adjusted [2]	8.2	(0.1)	8.1

Consolidated cash flow statement financial impact

	2018		
	Previously reported £m	Adjustment on application of IFRS 15 £m	Restated balance £m
Profit for the year	6.9	(0.2)	6.7
Operating cash inflow before movements in working capital	40.0	(0.2)	39.8
Increase in trade and other receivables	(5.0)	0.2	(4.8)
Cash generated from operating activities before interest and taxation	39.5	–	39.5

Consolidated balance sheet financial impact

2017	May 2017 (as reported) £m	Adjustment on application of IFRS 15 £m	Restated balance £m
Deferred revenue	(35.6)	(1.4)	(37.0)
Net assets	212.1	(1.4)	210.7
Retained earnings	7.1	1.4	8.5

2018	May 2018 (as reported) £m	Adjustment on application of IFRS 15 £m	Restated balance £m
Deferred revenue	(29.0)	(1.6)	(30.6)
Net assets	208.2	(1.6)	206.6
Retained earnings	12.8	1.6	14.4

Future accounting developments - IFRS 16 Leases

Transition approach

The Group will adopt this standard for the year ending 31 May 2020 under a modified retrospective approach.

The Group has a variety of operating leases within the consolidated financial statements. The accounting for operating leases in particular will change when IFRS 16 is implemented.

Structure and status of IFRS 16 implementation project

The Group commenced an implementation project during the year ended 31 May 2019, whereby management performed a feasibility impact of the proposed standard.

Following this feasibility review, management has implemented specific governance around the project culminating in the development of an in-house central depositary platform for leases.

The platform and its control environment will continue to be developed as the Group transitions to IFRS 16 during the year ending 31 May 2020.

Implications of IFRS 16
Following a detailed review by management of the implications of IFRS 16, the following can be noted:

- a number of lease contracts currently disclosed within the financial statements, which currently give rise to recurring expenses within operating expenses, will be recognised on the balance sheet as a "right of use asset" for the year ending 31 May 2020;
- a corresponding lease liability (current and non-current) reflecting the Group's commitment to pay consideration to third parties under these contracts will also be recognised, increasing the Group's net debt although the net cash flow profile remains the same for the Group;
- the Group will depreciate the right of use assets through the Income Statement over the shorter of the assets' useful lives and the assessed lease term;
- the Group will recognise interest on the liability using the rate of interest implicit in the lease or, if the interest rate implicit in the lease cannot be determined, the Group's incremental borrowing rate as adjusted for a specific risk adjustment. Interest will be charged to finance costs; and
- the profile of the overall expense in profit and loss will change as the interest expense will be more front-loaded compared to a straight-line operating lease rental expense.

Specifically, for management to conclude on whether a contract contains a lease, the following has been considered:

- whether there is an identified asset that the Group has the right to obtain substantially all the economic benefits from;
- whether the Group has the right to direct how and for what purpose the asset is used;
- whether the Group has the right to operate the asset without the supplier having the right to change those operating instructions; and
- whether the Group has designed the asset in a way that predetermines how and for what purpose the asset will be used.

In addition, management has also considered other salient factors in the assessment of the standard such as:

- the length of assessed lease term taking into account the non-cancellable period of the lease including periods covered by an option to extend or an option to terminate if the Group is reasonably certain to exercise either option; and
- the applicability of interest rate implicit in the lease or the Group's incremental borrowing rate, as adjusted for a specific risk adjustment.

Following the above assessment, management has concluded that the following items that are currently classified as operating leases will be recognised in the financial statements using the new requirements:

- certain properties;
- equipment leases, including printers; and
- motor vehicles.

The Group does not lease any server equipment in relation to the provision of Escrow services.

Exemptions and practical expedients to be applied and taken
Management has reviewed available exemptions contained within IFRS 16 and concluded not to apply the low value or short-life exemptions. In addition, the Group plans to offset the onerous leases under IAS 37 immediately before transition as opposed to performing an impairment review under IAS 36.

Indicative financial impact
At 31 May 2019, the Group had approximately £36m of non-cancellable operating lease commitments. It is expected that the application of this standard will have a significant impact on the Group's Financial Statements.

Indicatively, the changes can be summarised as having the following effect on the opening consolidated financial position as at 1 June 2019:

- Assets and liabilities will increase by £29.0m to £31.0m primarily reflecting the rental property portfolio of the Group;
- Assets will be offset by an onerous lease provision of approximately £4m; and
- EBITDA will increase in year one by £5.0m to £7.0m reflecting the reclassification of rental payments to interest and depreciation charges. Net profit is unaffected over the lifetime of a lease.

Deferred taxation will arise on the transition adjustment at 1 June 2019 of £0.5m to £1.0m and a movement of £0.2m to £0.5m during the year ended 31 May 2020, giving rise to a net deferred tax asset of £0.7m to £1.5m as at 31 May 2020.

The Group has recently renegotiated its banking facilities. The debt covenants on the Group's borrowing facilities will be unaffected by the application of IFRS 16 as the covenant calculations are based on the accounting principles in place prior to 1 January 2019. The IFRS 16 changes are not expected to impact the interest paid by the Group for its banking facilities. The overall net cash flow for the Group will be unaffected by IFRS 16 other than operating cash outflows (excluding interest costs) relating to leases being reclassified as financing outflows. Interest costs relating to the lease will be disclosed within interest paid.

2 Alternative Performance Measures (APMs) and adjusting items

The consolidated financial statements include APMs as well as Statutory measures. These APMs used by the Group are not defined terms under IFRS and may therefore not be comparable with similarly titled measures reported by other companies. They are not intended to be a substitute for, or superior to, Generally Accepted Accounting Practice (GAAP) measures. All APMs relate to the current year results and comparative periods where provided. This presentation is also consistent with the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the financial performance, position and trends of the Group. At all times the Group aims to ensure that the Annual Report and Accounts give a fair, balanced and understandable view of the Group's performance, cash flows and financial position. IAS 1, Presentation of Financial Statements, requires the separate presentation of items that are material in nature or scale in order to allow the user of the accounts to understand underlying business performance.

The APMs were the same as those that applied to the audited consolidated financial statements for the year ended 31 May 2018 and the unaudited interim financial statements for the period ended 30 November 2018. See below for reconciliation of adjusted information to Statutory information and refer to the Glossary for comprehensive descriptions of all APMs, including their relevance in providing supplementary information that assists the user to understand better the financial performance, position and trends of the Group.

Performance is based on adjusted operating profit [2], defined as operating profit or loss before adjusting items, as presented to the CODM.

Adjusting items are:

- Individually significant items;
- Share based payments;
- Amortisation of acquired intangibles;
- Profit on disposal of investment;
- Unwind on discount on acquisition consideration; and
- Historic R&D prior year tax credits.

Reconciliation of adjusted information to Statutory information

The following table includes details of adjusting items and reconciles adjusted information to Statutory information for continuing operations:

Year ended 31 May 2019 – continuing operations	Revenue £m	Gross profit £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit from continuing operations £m
Adjusted	**250.7**	**101.8**	**43.7**	**(10.0)**	**33.7**	**32.0**	**(6.5)**	**25.5**
Individually Significant Items (note 5)	**–**	**–**	**(3.6)**	**–**	**(3.6)**	**(3.6)**	**0.5**	**(3.1)**
Share-based payments	**–**	**–**	**(1.7)**	**–**	**(1.7)**	**(1.7)**	**(0.1)**	**(1.8)**
Amortisation of acquired intangibles	**–**	**–**	**–**	**(9.0)**	**(9.0)**	**(9.0)**	**1.8**	**(7.2)**
Profit on disposal of investment	**–**	**–**	**0.1**	**–**	**0.1**	**0.1**	**–**	**0.1**
Statutory	**250.7**	**101.8**	**38.5**	**(19.0)**	**19.5**	**17.8**	**(4.3)**	**13.5**

Year ended 31 May 2018 – continuing operations (restated [1])	Revenue £m	Gross profit £m	EBITDA £m	Depreciation and amortisation £m	Operating profit £m	Profit before taxation £m	Taxation £m	Profit from continuing operations £m
Adjusted	233.0	95.9	42.9	(12.1)	30.8	29.3	(6.6)	22.7
Individually Significant Items (note 5)	–	–	(7.6)	–	(7.6)	(7.6)	1.5	(6.1)
Share-based payments	–	–	(0.3)	–	(0.3)	(0.3)	0.4	0.1
Amortisation of acquired intangibles	–	–	–	(9.4)	(9.4)	(9.4)	3.8	(5.6)
Unwind of discount on acquisition consideration	–	–	–	–	–	(0.3)	–	(0.3)
R&D prior-year tax credits	–	–	–	–	–	–	1.4	1.4
Statutory	233.0	95.9	35.0	(21.5)	13.5	11.7	0.5	12.2

Amortisation of acquired intangibles represents amortisation of customer contracts and relationships arising from acquisitions.

R&D prior-year tax credits relate to a significant historic R&D tax claim in North America which was recognised in 2018.

During the year ended 31 May 2019, cash adjusting items were £nil (2018: £1.8m).

Net debt [2]

Net debt [2] is set out below:

	2019 £m	2018 £m
Cash and cash equivalents	**34.9**	21.2
Borrowings	**(55.1)**	(49.0)
Net Debt [2]	**(20.2)**	(27.8)

Cash conversion ratio [2]

The calculation of the cash conversion ratio [2] is set out below:

Continuing and discontinued	2019 £m	2018 £m
Cash generated from operating activities before interest and taxation (A)	**47.9**	39.5
Adjusted EBITDA [2] (B)	**43.7**	43.8
Cash conversion ratio [2] (%) (A)/(B)	**109.6%**	90.2%

3 Segmental information

The Group is organised into the following two (2018: two) reportable segments: Escrow and Assurance. The two reporting segments provide distinct types of service. Within each of the reporting segments the operating segments provide a homogeneous group of services. The operating segments are grouped into the reporting segments on the basis of how they are reported to the Chief Operating Decision Maker (CODM) for the purposes of IFRS 8: "Operating Segments", who is considered to be the Board of Directors of NCC Group plc. Operating segments are aggregated into the two reportable segments based on the types and delivery methods of services they provide, common management structures, and their relatively homogenous commercial and strategic market environments. Performance is measured based on reporting segment profit, which comprises adjusted operating profit [2]. Interest and tax are not allocated to business segments and there are no intra-segment sales.

Segmental analysis 2019

	Escrow £m	Assurance £m	Central & Head Office £m	Group £m
Revenue	**38.0**	**212.7**	**–**	**250.7**
Cost of sales	**(9.7)**	**(139.2)**	**–**	**(148.9)**
Gross profit	**28.3**	**73.5**	**–**	**101.8**
Gross margin %	**74.5%**	**34.6%**	**–**	**40.6%**
General administration expenses allocated [2]	**(9.3)**	**(50.9)**	**(7.9)**	**(68.1)**
Adjusted operating profit [2]	**19.0**	**22.6**	**(7.9)**	**33.7**
Adjusting items [2]				**(14.2)**
Operating profit				**19.5**

Segmental analysis 2018

(Restated[1])	Escrow £m	Assurance £m	Central & Head Office £m	Group £m
Revenue	39.1	193.9	–	233.0
Cost of sales	(9.2)	(127.9)	–	(137.1)
Gross profit	29.9	66.0	–	95.9
Gross margin %	76.5%	34.0%	–	41.2%
General administration expenses allocated [2]	(8.0)	(49.5)	(7.6)	(65.1)
Adjusted operating profit [2]	21.9	16.5	(7.6)	30.8
Adjusting items [2]				(17.3)
Operating profit				13.5

4 Discontinued operations

In the prior financial year, the Group sold Web Performance and Software Testing, both part of the Assurance division but not aligned to the core cyber security activities of the division. The tables below provide an analysis of these discontinued operations.

Loss of discontinued operations	2019 £m	2018 £m
Revenue	-	21.5
Cost of sales	-	(17.2)
Gross profit	-	4.3
General administrative expenses	-	(3.6)
Share-based payments	-	0.1
Operating profit	-	0.8

Loss of discontinued operations	2019 £m	2018 £m
Loss on sale of discontinued operations before tax	-	(6.4)
Loss on discontinued operations before tax	-	(5.6)
Taxation	-	0.1
Loss on discontinued operations after tax	-	(5.5)

Effect of discontinued operations on assets and liabilities	2019 £m	2018 £m
Intangible assets	-	6.2
Plant and equipment	-	0.5
Trade and other receivables	-	4.5
Cash and cash equivalents	-	0.7
Trade and other payables	-	(5.8)
Net assets	-	6.1

Summary of loss on disposal of subsidiary	2019 £m	2018 £m
Consideration received or receivable:		
Cash consideration	-	11.3
Carrying amount of net assets disposed of	-	(6.1)
Elimination of goodwill	-	(10.2)
Professional fees and other costs	-	(1.4)
Loss on disposal before taxation	-	(6.4)
Taxation	-	–
Loss on disposal after taxation	-	(6.4)

5 Individually Significant Items

The Group separately identifies items as Individually Significant Items. Each of these is considered by the Directors to be sufficiently unusual in terms of nature or scale so as not to form part of the underlying performance of the business. They are therefore separately identified and excluded from adjusted results (as explained in note 2).

Individually Significant Items (ISIs)	2019 £m	2018 £m
SGT – legacy systems accelerated amortisation (net of R&D tax credit)	**(3.8)**	–
Loss-making contract	**–**	(2.5)
Revisions to deferred and contingent consideration	**0.8**	(0.6)
Restructuring costs	**–**	(1.6)
Onerous leases and other property-related costs	**(0.6)**	(2.7)
Market-related costs	**–**	(0.2)
Total ISIs – continuing operations	**(3.6)**	(7.6)

SGT – legacy systems accelerated amortisation

As part of the transformation projects underway across the Group, the Group has accelerated amortisation on legacy systems in advance of new systems coming into effect. The charge is a large, one-off transaction which will not be repeated in coming years, and therefore, was deemed to be an ISI. The charge is net of an R&D tax credit.

Loss-making contract
In the prior year, a loss-making contract was identified by management, whereby it was considered that significant additional effort would be required to satisfy the contractual commitments that has led the contract to be loss making over its lifetime. The Group has a very small number of long-term contracts and hence this is a very unusual occurrence for the Group. It was therefore deemed, both in terms of its unusual nature and size that it should be treated as an ISI.

Revisions to deferred and contingent consideration
The revisions to deferred and contingent consideration represent changes to amounts payable by the Group on the purchase of overseas subsidiaries, as well as foreign exchange differences on that consideration. Due to the size of the movement and that there was no connection to the underlying performance of the business, this has been treated as an ISI.

Restructuring costs
Restructuring costs arose due to a prior-year Strategic Review and hence are treated as an ISI given the one-off nature of the Strategic Review and the level of the costs incurred.

Onerous leases and other property-related costs
Following a review of the UK property portfolio and capacity requirements, management have identified three onerous property leases. The amount provided for represents the forecasted discounted net cash flows.

In the prior year, onerous property leases arose on a vacant property and an unused floor in the Manchester head office. In the current year, the Directors have decided to vacate another floor in the head office.

In addition, in the prior year, costs included dual running costs of the Manchester head office, prior to occupancy.

These costs are treated as an ISI because they arise in connection with unoccupied properties and this is not considered to be part of the underlying performance of the business.

Market-related costs
Market-related costs in the prior year were in respect of the shareholder circular and exercise to remediate a number of invalid dividends. This exercise completed successfully at the September EGM. The correction of invalid dividends being paid in the prior year by means of a shareholder circular is a highly unusual occurrence and hence while small in scale was deemed not to form part of the underlying business performance.

6 Dividends

	2019 **£m**	**2018** **£m**
Dividends paid and recognised in the year	**12.9**	12.8
Dividends per share paid and recognised in the year	**4.65p**	4.65p
Dividends per share proposed but not recognised in the year	**3.15p**	3.15p

The proposed final dividend for the year ended 31 May 2019 of 3.15p per ordinary share on approximately 277.8m ordinary shares (approximately £8.8m) was approved by the Board on 24 July 2019 and will be recommended to shareholders at the AGM on 25 September 2019. The dividend has not been included as a liability as at 31 May 2019. The payment of this dividend will not have any tax consequences for the Group.

7 Earnings per ordinary share (EPS)
Earnings per ordinary share are shown on a Statutory and a Adjusted [2] basis to assist in the understanding of the performance of the Group.

	2019 **£m**	**2018** **(Restated [1])** **£m**
Statutory earnings - continuing operations	**13.5**	12.2
Statutory earnings - all operations	**13.5**	6.7
Adjusted [2] profit from continuing operations (note 2)	**25.5**	22.7

	Number of shares m	Number of shares m
Basic weighted average number of shares in issue	**277.8**	277.0
Dilutive effect of share options	**1.5**	2.3
Diluted weighted average shares in issue	**279.3**	279.3

For the purposes of calculating the dilutive effect of share options, the average market value is based on quoted market prices for the period during which the options are outstanding.

	2019 pence	2018 (Restated [1]) pence
Basic earnings per ordinary share		
Statutory - continuing operations	**4.9**	4.4
Statutory - all operations	**4.9**	2.4
Adjusted [2]	**9.2**	8.2

	2019 pence	2018 (Restated [1]) pence
Diluted earnings per ordinary share		
Statutory - continuing operations	**4.8**	4.4
Statutory - all operations	**4.8**	2.4
Adjusted [2]	**9.1**	8.1

8 Related party transactions

The Group's key management personnel comprise the Directors of the Group. There were no other related party transactions during the year.

9 Post balance sheet events

As at 31 May 2019, the Group had committed bank facilities of £97.8m (2018: £102.7m), of which £55.1m (2018: £49.0m) had been drawn under these facilities, leaving £42.7m (2018: £53.7m) of undrawn facilities. These existing arrangements were agreed in November 2015 and were due for renewal in November 2020.

On 10 June 2019, the Group renegotiated its existing term loan and multi-currency revolving credit facilities into a new fully revolving credit facility of £100m with a new five-year term up to June 2024 on similar terms (pricing and covenants). Under the new arrangements, the Group can request an additional accordion facility to increase the total size of the revolving credit facility by up to £75m (previously £50m). In addition, the Group has retained its existing overdraft of £5m. Arrangement fees incurred will be amortised over the term accordingly. Historical arrangements fees have been fully amortised.

There were no other post balance sheet events.

Glossary of terms - Alternative performance measures

APMs are the way that financial performance is measured by management, reported to the Board, the basis of financial measures for senior management's compensation schemes and provides supplementary information that assists the user in understanding the underlying trading results.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition, purpose and considerations made by the Directors
Income statement measure – continuing operations:				
Adjusted operating profit (EBIT)	Operating profit or loss	Operating profit or loss before adjusting items Adjusting items represent amortisation of acquired intangibles, discount unwind on acquisition consideration, profit on the disposal of investments, individually significant items and share-based payments	2	Represents operating profit before adjusting items to assist in the understanding of the Group's performance. Adjusting items represent amortisation of acquired intangibles, discount unwind on acquisition consideration, profit on the disposal of investments, individually significant items, and share-based payments. The Directors consider amortisation of acquired intangibles is a non-cash accounting charge inherently linked to losses associated with historical acquisitions of businesses in accordance with the Group's adjusting items accounting policy. This APMs purpose is to allow the user to understand the Group's underlying financial performance as measured by management, reported to the Board and used as a financial measure in senior management's compensation schemes. An alternative view could be that the charge should be included in underlying results to reflect the "cost" of an acquisition in the Income Statement. All things considered, including the similar treatment by comparator companies, the Directors have concluded that this item is an adjusting item. The same principles apply to non-cash unwind of discounts on deferred and contingent acquisition consideration and the profit on the disposal of investments. Individually significant items are items that are considered unusual by nature or scale, and are of such significance that separate disclosure is relevant to understanding the Group's financial performance and therefore requires separate presentation in the financial statements in order to fairly present the financial performance of the Group. The Directors consider share-based payments to be an adjusting item on the basis that fair values are volatile due to movements in share price, which may not be reflective of the underlying performance of the Group.
EBITDA	Operating profit or loss	Operating profit or loss, before depreciation and amortisation, net finance costs and taxation	2	Represents operating profit before depreciation and amortisation. EBITDA is disclosed as this is a measure widely used by various stakeholders.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition, purpose and considerations made by the Directors
Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA)	Operating profit or loss	Operating profit or loss before adjusting items, depreciation and amortisation, net finance costs and taxation	2	Represents operating profit before adjusting items, depreciation and amortisation to assist in the understanding of the Group's performance. Adjusted EBITDA is disclosed as this is a measure widely used by various stakeholders and used by the Group to measure the cash conversion ratio noted below.
Adjusted Profit before taxation	Profit before taxation	Profit before taxation before adjusting items	2	Represents profit before taxation before adjusting items and provides supplementary information on the Group's profitability before taxation.
Adjusted basic EPS	Basic EPS	Basic EPS excluding adjusting items	7	Represents Basic EPS excluding adjusting items and provides supplementary information that assists the user in understanding the underlying trading results.
Balance sheet measure				
Net debt	Total borrowings offset by cash and cash equivalents		2	Represents total borrowings offset by cash and cash equivalents. It is a useful measure of the progress in generating cash, strengthening of the Group balance sheet position, overall net indebtedness and gearing. Net debt, when compared to available borrowing facilities, also gives an indication of available financial resources to fund potential future business investment decisions and/or potential acquisitions.
Cash flow measure				
Cash conversion ratio	Ratio % of net cash flow from operating activities before interest and tax dividend by Operating profit	Ratio % of net cash flow from operating activities before interest and tax dividend by adjusted EBITDA	2	The cash conversion ratio is a measure of how effectively Adjusted operating profit (as detailed above) is converted into cash and effectively highlights both non-cash accounting items within operating profit and also movements in working capital. It is calculated as Net cash flow from operating activities before interest and taxation (as disclosed on the face of the cash flow statement) divided by adjusted EBITDA for continued and discontinued activities. The cash conversion ratio is a measure widely used by various stakeholders and hence is disclosed to show the quality of cash generation and also to allow comparison to other similar companies.