6 September 2022

NCC Group plc
Preliminary results for the year ended 31 May 2022

Strong platform for further growth

NCC Group plc (LSE: NCC, "NCC Group" or "the Group"), a leading independent global cyber security and resilience provider, reports its full year results for the 12 months to 31 May 2022 ("the full year", "FY", "2022", "the year").

Highlights

- Successful delivery of growth contributing to record revenue and profits as we continue to successfully execute our strategy
- Revenue grew +17.9% at constant currency [1] (+16.4% actual rates), driven by strong H2 Assurance revenue growth and the acquisition of IPM
  - Revenue growth in Assurance of +12.1% at constant currency [1] (+10.5% actual rates), with H2 revenue growth amounting to +15.1% at constant currency [1] (+15.8% actual rates)
  - Software Resilience (exc. IPM) declined -0.6% at constant currency [1] (-1.4% actual rates); however, H2 revenue growth amounted to +2.2% at constant currency [1] (+2.2% actual rates)
- IPM integration substantially complete with the focus to increase revenue and profitability
- Gross margin (%) increased +1.2% pts due to the IPM acquisition offset by a slight decline in Assurance gross margin of -0.4% pts and decline in Software Resilience (excluding IPM) of -3.2% pts
- Operating profit increased 100.6% to £34.7m, with operating margin improving by 4.6% pts
- Free cashflow prior to acquisition costs of £7.3m was £53.9m, compared to £35.8m in the prior year, delivering cash flow conversion [1] of 101.9% and net debt [1] of £52.4m

	2022	2021	Change at actual rates	Change at constant currency [1]
Revenue (£m) [1]	**314.8**	270.5	16.4%	17.9%
Revenue excluding IPM acquisition (£m) [1]	**294.6**	270.5	8.9%	10.3%
Gross profit (£m)	**132.6**	110.6	19.9%	
Gross margin (%)	**42.1%**	40.9%	1.2% pts	
Operating profit (£m)	**34.7**	17.3	100.6%	
Operating profit margin (%)	**11.0%**	6.4%	4.6% pts	
Adjusted EBITDA [1] (£m)	**59.2**	52.5	12.8%	
Adjusted EBITDA margin [1] (%)	**18.8%**	19.4%	(0.6% pts)	
Adjusted operating profit [1] (£m)	**48.1**	39.2	22.7%	
Adjusted operating profit margin [1] (%)	**15.3%**	14.5%	0.8 pts	
Profit before taxation (£m)	**31.0**	14.8	109.5%	
Basic EPS (pence)	**7.4p**	3.6p	105.6%	
Adjusted basic EPS [1](pence)	**10.8p**	9.5p	13.7%	
Net (debt)/cash excluding lease liabilities [1] (£m)	**(52.4)**	83.3	(£135.7m)	
Net (debt)/cash [1] (£m)	**(85.0)**	48.9	(£133.9m)	
Cash conversion [1] (%)	**101.9%**	88.2%	13.7% pts	
Dividend (pence)	**3.15**	3.15	-	

Footnote:
1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

Strong assurance revenue growth, with H2 revenue growth momentum

- Revenue growth in all Assurance geographies:
  - North America grew +14.6% at constant currency [1] (+13.8% actual rates), H2 revenue grew +20.1% at constant currency [1] (+26.2% actual rates)
  - UK & APAC grew +11.8% at constant currency [1] (+11.6% actual rates), H2 revenue grew +16.1% at constant currency [1] (+15.8% actual rates)
  - Europe grew 8.0% at constant currency [1] (+2.7% actual rates), H2 revenue grew 4.6% at constant currency [1] (-0.4% decline at actual rates)
- New XDR service global sales orders for the forthcoming years increased twelvefold to £11.6m
- Technical attrition rate remains at a level typical of our industry at c.21%, our global technical team grew by 271 technical heads

Software Resilience returns to growth in H2 as expected and transformed by IPM acquisition

- Overall revenue growth of +53.8% due to acquisition of IPM, transforming our global Software Resilience business
- Software Resilience (exc. IPM) revenues declined -0.6% at constant currency [1] (-1.4% actual rates), with H2 revenue growth of +2.2% at constant currency [1] (+2.2% actual rates)
- Gross margin (%) remained in line with prior year following investment to enable Software Resilience to achieve sustainable revenue growth, offset by IPM's higher gross margin percentage
- Escrow-as-a-Service sales orders grew a further 64% YoY to £3.4m
- Full operational review of combined Software Resilience division has identified £5m of contribution that will come through in FY24

Outlook and final dividend

- We have made a positive start to the year and are confident in meeting management expectations for the full year
- CEO strategy update to be unveiled at half year results
- Unchanged final dividend of 3.15p (2021: 3.15p) per ordinary share

Chris Stone, Chairman, commented:

"I am pleased to report another year of strong progress in which NCC Group capitalised on accelerating demand throughout the year to achieve record revenue and profits.

NCC Group's vision is to be the leading cyber resilience provider globally, and we have put in place the fundamentals that enable our Group to achieve this vision. We have enhanced our delivery capabilities, attracted brilliant people at scale and embedded an inclusive culture across the Group, all enabling the strong growth delivered in the year.

Assurance's successful year was driven by our performance in the US and UK, supported by Software Resilience's return to growth in the second half, as compared to the prior year second half. The integration of IPM is substantially complete and the business has already made a positive contribution to the Software Resilience division's performance, with a healthy pipeline heading into the new financial year.

With our strong platform established and continued momentum in the market our newly appointed CEO Mike Maddison has joined the Group at an exciting time. Mike brings a tremendous amount of energy, experience and industry insight to the CEO role and we look forward to seeing the Group deliver the next phase of growth under his leadership. The cyber security market is only travelling in one direction, and we believe we are well positioned to capture the opportunities that this creates, making the world safer and more secure."

Mike Maddison, Chief Executive Officer, commented:

"Evident in my first two months is the exciting opportunity that exists for NCC Group. Businesses fully recognise the need to invest in their resilience, and as the pandemic recedes and business activity normalises, this recognition is being met with action across our sectors and geographies. I want to build on the strong foundations NCC Group has achieved and capitalise on the accelerating appetite for cyber expertise we are now seeing through the investment in the NCC Group proposition, its operations and its people.

With leading capabilities, global reach and fantastic talent throughout the group, I am excited to lead the business in creating value for all our stakeholders."

Analyst presentation briefing and Q & A session
A briefing for analysts will be held today at 9am at the offices of Maitland AMO, 3 Pancras Square, London N1C 4AG. The briefing can be accessed via the following: https://www.investis-live.com/nccgroup/62de8d7de246bb0c0001e93b/cvbn

Enquiries

NCC Group (www.nccgroupplc.com) +44 (0)161 209 5432
Chris Stone, Chairman/Mike Madison, CEO/ Tim Kowalski, CFO

Maitland AMO +44 (0)20 7379 5151
Sam Cartwright

About NCC Group plc
NCC Group exists to make the world safer and more secure.

Our vision is to be the leading cyber resilience provider globally, trusted to protect and secure our customers' critical assets and sought-after for our complete people-led, technology-enabled cyber resilience solutions that enable our customers to thrive.

Our four values are: We work together; we are brilliantly creative; we embrace difference and we take responsibility.

As global experts in cyber security and risk mitigation, NCC Group is trusted by over 14,000 customers worldwide to protect their most critical assets from the ever-changing threat landscape. With the company's knowledge, experience and global footprint, it is best placed to help organisations assess, develop and manage their cyber resilience posture. To support its mission, NCC Group continually invests in research and innovation, and is passionate about developing the next generation of cyber scientists. With over 2,400 colleagues in 12 countries, NCC Group has a significant market presence in North America, Europe and the UK, and a growing footprint in Asia Pacific with offices in Australia, Japan and Singapore.

Cautionary note regarding forward-looking statement
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

Business review

Strong momentum

This was a year of continued progress for our delivery capabilities, our culture, our commitment to sustainability and our ability to attract, develop and retain the best talent from across the globe. In doing so, creating greater value for our customers – from embracing cloud transformation to improving their overall security posture, we are operating at various points of the customers' value chains, from design to end users.

It was a year where the decisions previously taken by the business showed their value. Those decisions centring around a global delivery model, investment in systems, continued development of our resilience propositions and the acquisition of IPM enabled the Group to deliver strong revenue growth of 17.9% at constant currency [1] (16.4% at actual rates) and 10.3% at constant currency [1] on an organic basis (revenue excluding IPM acquisition) (+8.9% actual rates), with a strong platform for continued double-digit revenue growth in FY23.

While there remain challenges to overcome, the Group has never been better positioned to realise its vision – to be the leading cyber resilience provider globally. We have created strong foundations and momentum, evidenced by the c.15% growth we saw in the second half of the financial year for Assurance and c.2% growth for Software Resilience. This propelled us forward and we enter this next phase of NCC Group's growth story with our new CEO, Mike Maddison. We are excited for the future of NCC Group.

A strong performance built on investment in talent

The year started slowly. Different markets exited the pandemic at different rates and times. There was still a sense of uncertainty from customers around the world, which saw many project delays during the first quarter. But this position reversed throughout the year, and we accelerated our delivery in tandem with demand peaking in the final quarter.

We were able to capitalise on this increased demand because we had brought more talented colleagues into the business ahead of the bounce back – a deliberate decision based on the belief that cyber security spend would significantly increase once the world returned to some level of normality. The digital risk has only increased, ransomware is endemic, and we've seen a shift in mindset, driven by regulations and also the emerging ESG agenda, that cyber resilience is not optional but essential for sustainable and responsible business growth. It was simply a matter of time.

Over 12 months we welcomed c.1,000 new people into the business. While our technical attrition rate remains at a level typical of our industry at c.21%, our global technical team grew by 271. The fight for talent has been incredibly fierce, but we have been able to attract brilliant people at scale. This shows the strength of our employer brand and the steps we've taken to improve the colleague experience.

But this wasn't simply about taking talent from the competition. We understand and embrace our role and position in the cyber security industry. We are a creator of talent. Our mission is to make the world safer and more secure, and part of that means helping to solve the cyber skills shortage. It's why we continue to develop talent from the ground up and bring people into the industry from different walks of life and backgrounds and with different skill sets.

This approach not only grows the overall cyber talent pool but ensures our team better reflects the diversity of all our global communities.

Our impact on talent in the industry can be seen through our NCC Group alumni. We are proud that they hold cyber security roles in leading businesses across the globe. And this year we launched our Alumni Network to maintain those connections and ensure an ongoing dialogue with those we are proud to have developed and supported in their cyber careers.

Responding to customer need

We continued to refine our services based on customer need, contributing to a successful year in our Assurance division – particularly in North America and the UK, with total Assurance revenue growth of +12.1% at constant currency [1] (+10.5% at actual rates).

Our decision to create a global professional services function, with investment in our systems to enable collaboration, has meant customers can access our expertise more readily, utilising our global talent base over and above just the team in their market. Global cross charged days increased 47%. This has been transformational, both in terms of customer experience and our capacity to handle increased customer demand rapidly. It is a prime example of our growing capability to truly operate as one global firm – to the benefit of our customers.

In managed services, our newest offering using Microsoft Extended Detection and Response (XDR) has shown significant promise. We have the ability to quickly and simply offer 24/7 managed detection and response (MDR) to businesses with a Microsoft infrastructure – no matter where they are in the world. This has, in a sense, democratised MDR and made it a more natural purchasing decision. With so much of the market still untapped there is opportunity to scale further. In addition, NCC's Microsoft Cloud Business has shown growth over the last twelve months, resulting in significant Azure Consumed Revenue (ACR) being driven back to Microsoft. This ongoing partnership goes from strength to strength, with NCC also embedded in the Microsoft Intelligent Security Association, and with a nomination for the Microsoft MSSP Program. NCC is now recognised as one of the Microsoft UK's fastest growing Cloud Security Partners and we are looking forward to extending that into Europe, North America & Asia-Pacific.

In our Software Resilience division, the acquisition of IPM at the start of the financial year led to increased scale. The integration is substantially complete, and our new colleagues have added to the brilliant talent already present in the team. We have seen appetite from the IPM client base for our Escrow-as-a-Service (EaaS) cloud escrow proposition, with a healthy pipeline moving into FY23.

Financial performance summary

Group revenues increased by 17.9% on a constant currency basis [1] and at 16.4% (2021: 2.6%) at actual rates. Group revenues excluding the recent IPM acquisition [1] increased by 10.3% on a constancy currency basis [1], 8.9% at actual rates.

In our Assurance business, the North American and UK and APAC Assurance businesses grew on a constant currency basis [1] by 14.6% and 11.8% respectively (13.8% and 11.6% at actual rates) and our EU region [2] increased 8.0% on a constant currency basis [1] (2.7% at actual rates). Global Professional Services grew by 11.0% to £189.0m on a constant currency basis [1] (9.8% at actual rates) with delivered day rates increasing by 2.1% (H2 delivered day rates increased by 3.5%). Global Managed Services (GMS) grew by 6.7% to £58.6m on a constant currency basis [1] (4.3% at actual rates).

Within GMS, our new XDR service global sales orders for the forthcoming years increased twelvefold to £11.6m. The Group has received continued strong sales orders since the year end providing confidence in our future growth strategy. Remediation services are generating market traction, with 2022 revenues of £4.5m compared to £2.1m in 2021.

In our Software Resilience division, we completed in June 2021 the acquisition of IPM, which contributed £20.2m to revenue, delivering an overall growth in the division of 55.1% on a constant currency [1] basis (53.8% at actual rates). Our overall Software Resilience division results excluding IPM showed a decline in revenues for the first half of 3.3% on a constant currency [1] basis (4.9% at actual rates); however, as expected our second half revenue increased by 2.2% on a constant currency [1] basis (2.2% at actual rates) resulting in an overall decline of 1.4% for the year. Our Escrow-as-a-Service (EaaS), our cloud escrow proposition, generated sale orders of £3.4m, an increase of 64% compared to the same period last year.

Gross profit increased by 19.9% to £132.6m (2021: £110.6m) with gross margin percentage increasing to 42.1% (2021: 40.9%). The margin increase was due to the impact of the IPM acquisition, offset by overall Assurance margins declining by 0.4% pts as we focused on sales growth and a decline in our existing Software Resilience business by 3.2% pts following recent investment to return it to sustainable growth.

Turning to our statutory operating profit and taking into account all adjusting items (£13.4m), the Group has recognised an overall operating profit of £34.7m. However, as the Group manages its performance internally at an Adjusted operating profit [1] level, Adjusted operating profit [1] increased by 22.7% to £48.1m (2021: £39.2m). Profit before taxation increased 109.5% to £31.0m (2021: £14.8m) and profit for the year increased 130.0% to £23.0m giving rise to a basic EPS of 7.4p (2021: 3.6p); Adjusted basic EPS amounts to 10.8p (2021: 9.5p).

At 31 May 2022, our cash conversion [1] was 101.9% (2021: 88.2%). Net debt [1] amounts to £85.0m (2021: net cash of £48.9m). Net debt excluding lease liabilities [1] amounts to £52.4m (2021: net cash £83.3m). Total borrowings (including lease liabilities) offset by cash and cash equivalents amounts to £85.0m (2021: net cash £48.9m).

Following the acquisition of IPM, goodwill and intangible assets were recognised amounting to £68.6m and £92.6m respectively. Management is required to recognise all assets and liabilities at fair value, giving rise to a fair value adjustment on the level of deferred revenue acquired of £12.1m. This has resulted in a downward adjustment to the book value of IPM's deferred revenues reflecting the fair value of service still to be delivered. If the fair value adjustment had not applied, revenue would be £4.4m higher for the 12 months ended 31 May 2022.

Footnotes:

1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

2: The EU region includes our Dutch and Danish business. During FY23, the Danish business will be reported and managed under the UK & APAC division.

On this basis, management has set out below unaudited proforma information to show the consequential impact on the Group results for the year ended 31 May 2022. This unaudited proforma information will not be applicable for 2023 and forthcoming financial years. It is consistent with the way that financial performance is measured by management and reported to the Board, the basis of financial measures for senior management's compensation schemes and financial covenants. We consider these proforma measures reflect the potential revenue performance of the Group once a full 12 month period has been completed post acquisition and this information is relevant for use by investors, securities analysts and other interested parties as supplemental measures of future potential revenue performance. In the future periods there would also be some associated costs and therefore impact on future gross margin and other metrics. However, since statutory measures can differ significantly from the proforma measures we encourage you to consider these figures together with statutory reporting measures noted. This information is disclosed below and reconciled to profit after taxation:

	2022				**2022 unaudited proforma [4]**		2021			
	Assurance £m	**Software Resilience £m**	**Central and head office £m**	**Group £m**	**Software Resilience revenue adjustment £m**	**Group unaudited proforma £m**	Assurance £m	Software Resilience £m	Central and head office £m	Group £m
Revenue	**258.5**	**56.3**	**–**	**314.8**	**4.4**	**319.2**	233.9	36.6	–	270.5
Cost of sales	**(166.2)**	**(16.0)**	**–**	**(182.2)**	**–**	**(182.2)**	(149.5)	(10.4)	–	(159.9)
Gross profit	**92.3**	**40.3**	**–**	**132.6**	**4.4**	**137.0**	84.4	26.2	–	110.6
Gross margin %	***35.7%***	***71.6%***	**–**	***42.1%***	***100%***	***42.9%***	*36.1%*	*71.6%*	–	*40.9%*
Administrative expenses [2]	**(53.2)**	**(17.5)**	**(2.7)**	**(73.4)**	**–**	**(73.4)**	(45.4)	(9.5)	(3.2)	(58.1)
Adjusted EBITDA [1]	**39.1**	**22.8**	**(2.7)**	**59.2**	**4.4**	**63.6**	39.0	16.7	(3.2)	52.5
Depreciation and amortisation [3]	**(7.2)**	**(0.8)**	**(3.1)**	**(11.1)**	**–**	**(11.1)**	(9.4)	(0.7)	(3.2)	(13.3)
Adjusted operating profit [1]	**31.9**	**22.0**	**(5.8)**	**48.1**	**4.4**	**52.5**	29.6	16.0	(6.4)	39.2
Adjusted operating margin %	***12.3%***	***39.1%***	***n/a***	***15.3%***	***100%***	***16.4%***	*12.7%*	*43.7%*	*n/a*	*14.5%*
Individually Significant Items	**–**	**(0.9)**	**–**	**(0.9)**	**–**	**(0.9)**	–	(7.6)	(5.1)	(12.7)
Amortisation of acquired intangibles	**(0.9)**	**(4.8)**	**(2.9)**	**(8.6)**	**–**	**(8.6)**	(1.3)	–	(5.1)	(6.4)
Share-based payments	**(2.1)**	**(0.3)**	**(1.5)**	**(3.9)**	**–**	**(3.9)**	(1.5)	(0.1)	(1.2)	(2.8)
Operating profit/(loss)	***28.9***	***16.0***	**(10.2)**	**34.7**	***4.4***	***39.1***	26.8	*8.3*	(17.8)	*17.3*
Operating margin %	***11.2%***	***28.5%***	***n/a***	***11.0%***	***100%***	***12.2%***	*11.5%*	*22.7%*	*n/a*	*6.4%*
Finance costs				***(3.7)***	**–**	***(3.7)***				*(2.5)*
Profit before taxation				***31.0***	***4.4***	***35.4***				*14.8*
Taxation				***(8.0)***	***(1.1)***	***(9.1)***				*(4.8)*
Profit after taxation				***23.0***	***3.3***	***26.3***				*10.0*
EPS										
Basic EPS				***7.4p***	***1.1p***	***8.5p***				*3.6p*
Adjusted EPS				***10.8p***	***1.1p***	***11.9p***				*9.5p*

Footnotes:

1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

2: Administrative expenses excluding depreciation and amortisation, Individually Significant Items, amortisation of acquired intangibles and share-based payments.

3: Depreciation and amortisation excludes amortisation of acquired intangibles.

4: This represents unaudited proforma results.

Securing Growth Together (SGT)

Over the last three years the business has implemented the SGT programme which has now finished and has provided the foundations for future growth and the systems to allow timely information and control. As previously noted, the programme incurred cost overruns and the Group is now focused on the next phase of system optimisation to support future revenue growth and profitability.

Helping build a more sustainable world

Sustainability moved higher up our agenda with Executive responsibility appointed at the start of the financial year. It is fundamental to our mission of making the world safer and more secure.

We have continued to follow the recognised framework of ESG, and this year made material progress in each area.

Environmental: We partnered with Planet Mark this year and are driving forward a top-down engagement programme to map NCC Group's net zero by 2050 journey. In addition to this, we're reporting for the first time against the Task Force on Climate-Related Financial Disclosures (TCFD) framework, and we laid the foundations for launching our first green car salary sacrifice scheme for all UK colleagues in FY23.

Social: We've continued to invest in our colleague resource groups, with two new groups being formed to support accessibility and giving something back. And we've continued to expand our sponsorship activities to support making a career in cyber accessible for all.

Governance: While our focus has been reporting against TCFD for our own business, we have been, through our public affairs team, looking ahead at cyber resilience related regulations that may impact our customers, and looking at our how we design solutions to meet those future needs.

Recognition of our efforts in this executive-led focus was reflected in our 2022 Sustainalytics rating moving from the Medium Risk category to the Low Risk category, compared to the 2021 rating.

Sustainable growth through investment in resilience

This was a year that brought into sharp focus why resilience is, and will continue to be, so central to our organisation.

For our customers, it's driven by the macro environment. Investing in cyber resilience is the only way to adapt to society's increasing dependence on a complex connected environment. The threat landscape has never been more challenging. But we have continued to refine our offer to provide organisations around the world with a level of resilience that helps them face that threat and move forward with confidence.

This was a year that really showed the significant value of having built a resilient team: a team that has successfully adapted to a constantly changing external environment; a team that has reacted admirably to significant change over this financial year – and in previous years – as we put the fundamentals in place to enable NCC Group to achieve its vision; and a team that is more inclusive, open and diverse than ever before, and therefore better able to handle the challenges we face each day.

We are not complacent about the work still to do on all fronts; however, we are confident that with our track record and focus on resilience, we provide the platform for continued sustainable growth to create value for all our stakeholders.

Outlook and final dividend

- We have made a positive start to the year and are confident in meeting management expectations for the full year
- CEO strategy update to be unveiled at half year results
- Unchanged final dividend of 3.15p (2021: 3.15p) per ordinary share

Financial review

Overview of financial performance

We have delivered another strong set of financial results. Group revenues increased by 17.9% on a constant currency basis [1], and at actual rates Group revenues increased by 16.4% (2021: 2.6%); the difference to actual rates was mainly owing to the strengthening of Sterling against the US Dollar. Group revenues excluding the recent IPM acquisition increased by 10.3% on a constant currency basis [1] (8.9% at actual rates).

In Assurance, the North American and UK and APAC Assurance businesses grew by 14.6% and 11.8% on a constant currency basis [1] (13.8% and 11.6% at actual rates) and our EU region increased 8.0% on a constant currency basis [1] (2.7% at actual rates). As a result of the acquisition of IPM, Software Resilience revenue grew by 55.1% on a constant currency basis [1] (53.8% at actual rates). However, excluding the acquisition of IPM, Software Resilience revenue declined by 0.6% on a constant currency basis [1] (1.4% at actual rates), mainly due to a decline in UK and US contract revenue performance as terminations were greater than new business sales.

Gross profit increased by 19.9% to £132.6m (2021: £110.6m) with gross margin percentage increasing to 42.1% (2021: 40.9%). The margin increase was due to the impact of the IPM acquisition, offset by the underlying gross margin of our Assurance business slightly declining by 0.4% pts, as we invested and grew our technical talent, and a 3.2% decline in our existing Software Resilience business gross margin as a result of the investment in people to return it to sustainable growth.

Total administrative expenses have increased by £4.6m compared to the prior year. The main elements were the inclusion of IPM overhead base and integration costs of £7.0m, an increase in the amortisation of acquired intangibles of £2.2m due to the IPM acquisition, people and Securing Growth Together (SGT) investment, recruitment and training of £9.7m, share-based payments of £1.1m, resumption in non-client travel and office costs of £1.6m and a prior year profit on disposal of £0.5m, offset by an increase in current year R&D tax credits of £0.4m, a reduction in depreciation and amortisation of £2.2m, reduction in foreign exchange of £2.1m and a reduction in Individually Significant Items of £11.8m.

Operating profit has increased by 100.6% to £34.7m (2021: £17.3m) following an improvement in gross margin offset by increased administrative expenses noted above. Adjusted operating profit [1] increased by 22.7% to £48.1m (2021: £39.2m). Adjusted EBITDA [1] increased by 12.8% to £59.2m (2021: £52.5m).

During the year, the Group has incurred £0.9m (2021: £7.6m) of Individually Significant Items (ISIs), relating to the acquisition of the IPM business on 7 June 2021, bringing total acquisition costs (excluding share placing costs of £2.4m) to £8.5m. In the prior year, Individually Significant Items also included £5.1m relating to configuration and customisation costs associated with the Group's SGT transformation programme. For further detail, please refer to Note 5 to the consolidated Financial Statements.

Acquired intangible amortisation increased during the year by £2.2m as certain historical acquisitions became fully amortised over their useful economic life offset by the US acquisition of the IPM business, which created certain acquired intangibles that are being amortised over a useful economic life of twenty years (£4.8m). Share-based payments increased during the year to £3.9m following the introduction of new share schemes for key management beyond the Directors.

Profit before taxation increased 109.5% to £31.0m (2021: £14.8m) and profit for the year increased 130.0% to £23.0m (2021: £10.0m).

Following the share placing for the IPM acquisition in May 2021, the basic EPS amounted to 7.4p (2021: 3.6p) and diluted EPS amounted to 7.4p (2021: 3.5p). Adjusted basic EPS [1] amounts to 10.8p (2021: 9.5p).

At 31 May 2022, our cash conversion [1] was 101.9% (2021: 88.2%). Net debt [1] amounts to £85.0m (2021: net cash of £48.9m). Net debt excluding lease liabilities [1] amounts to £52.4m (2021: net cash £83.3m). Total borrowings (including lease liabilities) offset by cash and cash equivalents amounts to £85.0m (2021: net cash £48.9m).

Following the acquisition of IPM and a reduction in our net cash position, our Balance Sheet remains strong with headroom of £101.9m and we have continued to demonstrate effective cash management. Our Balance Sheet strength enables us to continue to fund organic and inorganic opportunities as they arise, as evident by the recent acquisitions of IPM and Adelard (for further details please refer to Note 12 to the consolidated Financial Statements).

Turning to our Balance Sheet, goodwill, intangible assets and deferred revenue have increased during the year following the acquisition of IPM.

The Board is declaring an unchanged final dividend of 3.15p per ordinary share (2021: 3.15p). This represents a dividend equal to that paid in the prior year as the Board is conscious of the need to invest in initiatives to support longer-term growth and service the debt profile following the recent acquisition.

Financial summary

Summary Income Statement [1]:

	2022 £m	2021 £m	% change
Revenue	**314.8**	270.5	16.4%
Cost of sales	**(182.2)**	(159.9)	13.9%
Gross profit	**132.6**	110.6	19.9%
Depreciation and amortisation [2]	**(11.1)**	(13.3)	(16.5%)
Administrative expenses [3]	**(73.4)**	(58.1)	26.3%
Adjusted operating profit [1]	**48.1**	39.2	22.7%
Individually significant items	**(0.9)**	(12.7)	(92.9%)
Acquired intangible amortisation	**(8.6)**	(6.4)	34.4%
Share based payments	**(3.9)**	(2.8)	39.3%
Operating profit	**34.7**	17.3	100.6%
Finance costs	**(3.7)**	(2.5)	48.0%
Profit before taxation	**31.0**	14.8	109.5%
Taxation	**(8.0)**	(4.8)	66.7%
Profit for the year	**23.0**	10.0	130.0%
	2022	2021	Change
EPS			
Basic	**7.4p**	3.6p	3.8p
Diluted	**7.4p**	3.5p	3.9p

Revenue summary:

	2022 £m	2021 £m	% change at actual rates	2022 £m	2021 £m	% change at constant currency [1]
Assurance	**258.5**	233.9	*10.5%*	**258.5**	*230.7*	*12.1%*
Software Resilience	**56.3**	36.6	*53.8%*	**56.3**	*36.3*	*55.1%*
Total revenue	**314.8**	270.5	*16.4%*	**314.8**	*267.0*	*17.9%*

	2022 £m	2021 £m	% change at actual rates	2022 £m	2021 £m	% change at constant currency [1]
Total revenue	**314.8**	270.5	*16.4%*	**314.8**	*267.0*	*17.9%*
Less: IPM acquisition	**(20.2)**	-	*n/a*	**(20.2)**	-	*n/a*
Revenue excluding IPM acquisition [1]	**294.6**	270.5	*8.9%*	**294.6**	*267.0*	*10.3%*

	2022 £m	2021 £m	% change at actual rates	2022 £m	2021 £m	% change at constant currency [1]
Assurance	**258.5**	233.9	*10.5%*	**258.5**	*230.7*	*12.1%*
Software Resilience excluding IPM acquisition	**36.1**	36.6	*(1.4%)*	**36.1**	*36.3*	*(0.6%)*
Revenue excluding IPM acquisition [1]	**294.6**	270.5	*8.9%*	**294.6**	*267.0*	*10.3%*

Footnotes:

1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

2: Depreciation and amortisation excludes amortisation of acquired intangibles.

3: Administrative expenses excluding depreciation and amortisation, Individually Significant Items, amortisation of acquired intangibles and share-based payments.

Operating profit summary:

	2022 £m	2021 £m	% change
Assurance	**31.9**	29.6	7.8%
Software Resilience	**22.0**	16.0	37.5%
Central and head office	**(5.8)**	(6.4)	(9.4%)
Adjusted operating profit [1]	**48.1**	39.2	22.7%
Individually significant items	**(0.9)**	(12.7)	(92.9%)
Acquired intangible amortisation	**(8.6)**	(6.4)	34.4%
Share based payments	**(3.9)**	(2.8)	39.3%
Operating profit	**34.7**	17.3	100.6%
Operating profit margin %	**11.0%**	6.4%	4.6% pts

Footnote:
1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

Alternative Performance Measures (APMs)

Throughout this Financial Review, certain APMs are presented. The 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, IFRS measures. This presentation is also consistent with the way that financial performance is measured by management and reported to the Board, and the basis of financial measures for senior management's compensation scheme, and provides supplementary information that assists the user in understanding the financial performance, position and trends of the Group.

We believe these APMs provide readers with important additional information on our business and this information is relevant for use by investors, securities analysts and other interested parties as supplemental measures of future potential performance. However, since statutory measures can differ significantly from the APMs and may be assessed differently by the reader, we encourage you to consider these figures together with statutory reporting measures noted. Specifically, we would note that APMs may not be comparable across different companies and that certain profit related APMs may exclude recurring business transactions (e.g. acquisition related costs and certain share-based payment charges) that impact financial performance and cash flows.

As the Group manages internally its performance at an Adjusted operating profit level (before Individually Significant Items, amortisation of acquired intangibles and share-based payments), which management believes represents the underlying trading of the business; this information is still disclosed as an APM. This APM is reconciled to statutory operating profit, together with the consequently Adjusted basic EPS (before Individually Significant Items, amortisation of acquired intangibles, share-based payments and the tax effect thereon), to statutory basic EPS.

The Group noted the following APMs/non-statutory measures:

- Adjusted EBITDA (reconciled in Note 3)
- Adjusted operating profit (reconciled in Note 3)
- Adjusted basic EPS (pence) (reconciled in Note 8)
- Net (debt)/cash excluding lease liabilities (reconciled in Note 3)
- Net (debt)/cash (reconciled in Note 3)
- Cash conversion (reconciled in Note 3)
- Constant currency revenue (reconciled in Note 3)
- Revenue excluding IPM acquisition (reconciled in Note 3)
- Software Resilience excluding IPM acquisition (reconciled in Note 3)

The above APMs are consistent with those reported for the year ended 31 May 2021, except for the inclusion of revenue excluding IPM acquisition and Software Resilience revenue excluding IPM acquisition to allow stakeholders to understand the revenue performance of the existing business for the year ended 31 May 2022 prior to acquiring IPM in June 2021. In comparison to those APMs reported for the period ended 30 November 2021, one APM (cash conversion excluding IPM acquisition costs) has been removed to reduce the level of APMs reported. The Group also reports certain geographic regions on a constant currency basis to reflect the underlying performance taking into account constant foreign exchange rates period on period. This involves translating comparative numbers to current period rates for comparability to enable a growth factor to be calculated.

As these measures are not statutory revenue numbers, management considers these to be APMs; see Note 3 for further details and certain reconciliations to statutory measures.

Further detail is included within the Glossary of terms to the Financial Statements that provides supplementary information that assists the user in understanding these APMs/non-statutory measures.

Assurance

The Assurance division accounts for 82.1% of Group revenue (2021: 86.5%) and 69.6% of Group gross profit (2021: 76.3%).

Assurance revenue analysis – by originating country:

	2022 £m	2021 £m	% change at actual rates	% change at constant currency [1]
UK & APAC	**114.6**	102.7	*11.6%*	*11.8%*
North America	**94.1**	82.7	*13.8%*	*14.6%*
Europe	**49.8**	48.5	*2.7%*	*8.0%*
Total Assurance revenue	**258.5**	233.9	*10.5%*	*12.1%*

Assurance revenue increased by 12.1% on a constant currency basis [1] and at 10.5% at actual rates. UK and APAC increased by 11.8% on a constancy currency basis [1] (11.6% at actual rates) supported by growth in Professional Services. North America grew by 14.6% on a constant currency basis [1] (13.8% at actual rates), and Europe experienced growth of 8.0% on a constant currency basis [1] (2.7% at actual rates).

From a H2 2022 [2] perspective compared to the same comparator period, Assurance revenue increased by 15.1% on a constant currency basis [1] and at 15.8% at actual rates. UK and APAC increased by 16.1% on a constancy currency basis [1] (15.8% at actual rates). North America grew by 20.1% on a constant currency basis [1] (26.2% at actual rates); however, Europe only experienced growth of 4.6% on a constant currency basis [1] (-0.4% at actual rates). Our H2 2022 [2] performance compared to H1 2022 [2] showed Assurance revenue increased by 8.8% on a constant currency basis [1] and at 5.2% at actual rates. UK and APAC increased by 7.5% on a constancy currency basis [1] (7.3% at actual rates). North America grew by 8.9% on a constant currency basis [1] (2.3% at actual rates) and Europe experienced growth of 11.8% on a constant currency basis [1] (6.0% at actual rates).

Assurance revenue analysed by type of service/product line:

	2022 £m	2021 £m	% change at actual rates	% change at constant currency [1]
Global Professional Services (GPS)	**189.0**	172.2	*9.8%*	*11.0%*
Global Managed Services (GMS)	**58.6**	56.2	*4.3%*	*6.7%*
Product sales (own and third party)	**10.9**	5.5	*98.2%*	*94.6%*
Total Assurance revenue	**258.5**	233.9	*10.5%*	*12.1%*

Global Professional Services grew by 11.0% to £189.0m on a constant currency basis [1] (9.8% at actual rates) with delivered day rates increasing by 2.1%.

Global Managed Services (GMS) grew by 6.7% to £58.6m on a constant currency basis [1] (4.3% at actual rates). Within GMS, the Group has received strong sales orders since the year end providing confidence in our XDR growth strategy.

Assurance gross profit and margins are analysed as follows:

	2022 £m	**2022 % margin**	2021 £m	2021 % margin	% pts change
UK & APAC	**46.4**	***40.5%***	41.0	*39.9%*	0.6% pts
North America	**29.8**	***31.7%***	27.4	*33.1%*	(1.4% pts)
Europe	**16.1**	***32.3%***	16.0	*33.0%*	(0.7% pts)
Assurance gross profit and % margin	**92.3**	***35.7%***	84.4	*36.1%*	(0.4% pts)

Gross margin declined slightly by 0.4% pts, with our UK and APAC performance margins increasing by 0.6% pts, whereas North America and Europe gross margins declined by 1.4% pts and 0.7% pts due to investment in technical capacity to support future growth.

Footnotes:

1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

2: See Note 3 for a reconciliation of H1 2022 and H2 2002 revenue performance compared to the same comparator period.

Software Resilience

The Software Resilience division accounts for 17.9% of Group revenues (2021: 13.5%) and 30.4% of Group gross profit (2021: 23.7%). This increase was a result of the IPM acquisition.

Software Resilience revenue analysis – by originating country:

	2022 £m	2021 £m	% change at actual rates	% change at constant currency [1]
UK	**25.4**	25.2	*0.8%*	*0.8%*
North America	**26.8**	7.3	*267.1%*	*277.5%*
Europe	**4.1**	4.1	-	*2.5%*
Total Software Resilience revenue	**56.3**	36.6	*53.8%*	*55.1%*

In Software Resilience, we experienced an overall revenue increase of 55.1% at constant currency (53.8% actual rates). This increase was a result of the IPM acquisition.

Software Resilience revenue analysis – by originating country excluding the IPM acquisition:

	2022 £m	2021 £m	% change at actual rates	% change at constant currency [1]
UK	**24.5**	25.2	*(2.8%)*	*(2.8%)*
North America	**7.5**	7.3	*2.7%*	*5.6%*
Europe	**4.1**	4.1	-	*2.5%*
Software Resilience revenue excluding IPM acquisition	**36.1**	36.6	*(1.4%)*	*(0.6%)*

Excluding the effect of the IPM acquisition, revenue declined by 0.6% on a constancy currency basis [1] (1.4% at actual rates). As noted at our half year, revenue declined by 3.3% compared to the same comparator period on a constant currency basis [1] (4.9% at actual rates) and we expected a return to growth in the second half as sales capability was back at full strength and improved marketing automation resulted in improved activity levels and pipeline. It has therefore been pleasing to see H2 constant currency [1] growth of 2.2% (actual rates: 2.2%) mainly due to North America and Europe. On a local currency basis (US $), IPM revenue and profitability was 3% and 4% respectively behind our internal budget targets, with the focus now on finalising the IPM integration, increasing revenue and profitability.

Software Resilience revenue analysis – by service:

	2022 £m	2021 £m	% change at actual rates	% change at constant currency [1]
Software Resilience contracts	**38.1**	24.0	*58.8%*	*60.1%*
Verification services	**18.2**	12.6	*44.4%*	*45.6%*
Total Software Resilience revenue	**56.3**	36.6	*53.8%*	*55.1%*

Analysing the service performance, contracts increased by 60.1% at constant currency [1] (58.8% actual rates) and verification services increased by 45.6% at constant currency [1] (44.4% actual rates).

Software Resilience revenue analysis – by service excluding the IPM acquisition:

	2022 £m	2021 £m	% change at actual rates	% change at constant currency [1]
Software Resilience contracts	**22.6**	24.0	*(5.8%)*	*(5.0%)*
Verification services	**13.5**	12.6	*7.1%*	*8.0%*
Software Resilience revenue excluding the IPM acquisition	**36.1**	36.6	*(1.4%)*	*(0.6%)*

Excluding the effect of the IPM acquisition, contracts declined by 5.0% on a constancy currency basis [1] (5.8% at actual rates) due to UK and US contract performance and verification services increased by 8.0% at constant currency [1] (7.1% at actual rates).

Gross profit and margin are analysed as follows:

	2022 £m	**2022 % margin**	2021 £m	2021 % margin	% pts change
UK	**17.7**	***69.7%***	18.4	*73.0%*	*(3.3% pts)*
North America	**19.8**	***73.9%***	4.9	*67.1%*	*6.8% pts*
Europe	**2.8**	***68.3%***	2.9	*70.7%*	*(2.4% pts)*
Software Resilience gross profit and % margin	**40.3**	***71.6%***	26.2	*71.6%*	-

Gross profit has remained flat following the higher margins being obtaining from the IPM acquisition trade offset by investment to address historic execution challenges and enable Software Resilience to achieve sustainable revenue growth.

Individually Significant Items

During the year, the Group has incurred £0.9m (2021: £7.6m) relating to the acquisition of the IPM business completing on 7 June 2021, bringing total acquisition costs (excluding share placing costs of £2.4m) to £8.5m. In the prior year, Individually Significant Items also included £5.1m relating to configuration and customisation costs associated with the Group's SGT transformation programme. For further detail, please refer to Note 5.

Finance costs

Finance costs for the period were £3.7m compared to £2.5m in 2021 due to an increase in borrowing costs following the IPM acquisition. Finance costs include lease financing costs from IFRS 16 of £1.2m (2021: £1.2m).

Taxation

The Group's effective statutory tax rate is 25.8% (2021: 32.4%).

The Group's adjusted tax rate is 24.5% (2021: 27.0%).

The effective rate remains above the UK standard rate of corporation tax, reflecting the origin of a reasonable proportion of Group profits in overseas territories with higher tax rates than the UK and the derecognition of certain deferred tax assets.

Earnings per share (EPS)

	2022	2021
Statutory		
Basic EPS	**7.4p**	3.6p
Diluted EPS	**7.4p**	3.5p
Adjusted [1]		
Basic EPS	**10.8p**	9.5p
Diluted EPS	**10.8p**	9.5p
Weighted average number of shares (million)		
Basic	**309.5**	281.2
Diluted	**310.9**	282.7

The weighted average number of shares has increased mainly as a result of an increase in shares issued arising from the share placing in May 2021 that partially funded the recent acquisition of IPM.

Footnote:

1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

Cash flow and net debt [1]

The table below summarises the Group's cash flow and net debt [1]:

	2022 £m	2021 £m
Operating cash inflow before movements in working capital	**49.3**	47.3
(Increase)/decrease in trade and other receivables	**(1.8)**	4.7
Decrease/(increase) in inventories	**0.2**	(0.2)
Increase/(decrease) in trade and other payables	**12.6**	(5.5)
Cash generated from operating activities before interest and taxation	**60.3**	46.3
Interest element of lease payments	**(1.2)**	(1.2)
Other interest paid	**(2.1)**	(1.1)
Taxation paid	**(2.2)**	(5.1)
Net cash generated from operating activities	**54.8**	38.9
Cash flows from investing activities:		
Purchase of property, plant and equipment	**(5.2)**	(2.7)
Software and development expenditure	**(3.0)**	(2.1)
Net proceeds on disposal of intangibles	**-**	0.5
Acquisition of trade and assets as part of a business combination	**(153.0)**	-
Equity dividends paid	**(14.4)**	(13.0)
Repayment of lease liabilities (principal amount)	**(5.3)**	(6.0)
Proceeds from the issue of ordinary share capital	**0.8**	72.6
Net movement	**(125.3)**	88.2
Opening net cash/(debt) [1]	**83.3**	(4.2)
Non-cash movements (release of deferred issue costs)	**(0.4)**	(0.2)
Foreign exchange movement	**(10.0)**	(0.5)
Closing net (debt)/cash excluding lease liabilities [1]	**(52.4)**	83.3
Lease liabilities	**(32.6)**	(34.4)
Closing net debt [1]	**(85.0)**	48.9

Net (debt)/cash [1] can be reconciled as follows:

	2022 £m	2021 £m
Cash and cash equivalents	**73.2**	116.5
Borrowings (net of deferred issue costs)	**(125.6)**	(33.2)
Net (debt)/cash excluding lease liabilities [1]	**(52.4)**	83.3
Lease liabilities	**(32.6)**	(34.4)
Net debt [1]	**(85.0)**	48.9

The calculation of the cash conversion ratio [1] is set out below:

	2022 £m	2021 £m	% change/ % pts
Net operating cash flow before interest and taxation (A)	**60.3**	46.3	30.2%
Adjusted EBITDA [1] (B)	**59.2**	52.5	12.8%
Cash conversion ratio [1] (%) (A)/(B)	**101.9%**	88.2%	13.7% pts

Net operating cash flow before interest and taxation includes acquisition costs of £7.3m (2021: £1.2m).

The reduction in tax paid is mainly due to the Group currently being in a net tax recoverable position following payments in advance.

Net cash capital expenditure during the period was £8.2m (2021: £4.3m), which includes tangible asset expenditure of £5.2m (2021: £2.7m) and capitalised software and development costs of £3.0m (2021: £2.1m), which has been offset in the prior year by proceeds from the disposal of an intangible asset for £0.5m.

Free cash flow before acquisition costs of £7.3m (net cash generated from operating activities less capital expenditure and acquisition costs) increased by £18.1m to £53.9m.

Dividends

Dividends of £14.4m paid in the period (2021: £13.0m) comprised the final dividend for FY21 of 3.15p and the interim dividend of 1.5p per ordinary share for FY22 (2021: 1.5p). The Board is declaring an unchanged final dividend of 3.15p per ordinary share (2021: 3.15p).

This represents a dividend equal to that paid in the prior year as the Board is conscious of the need to invest in initiatives to support longer-term growth and service the debt profile following the recent acquisition.

The final dividend of approximately £9.8m will be paid on 11 November 2022, to shareholders on the register at the close of business on 14 October 2022. The ex-dividend date is 13 October 2022.

Footnote:

1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

Directors' responsibility statement

The responsibility statement below has been prepared in connection with the Group's full Annual Report for the year ended 31 May 2022. Certain parts thereof are not included within this announcement.

We confirm that to the best of our knowledge:

- The 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 is approved and authorised for issue on behalf of the Board on 6 September 2022 by:

Chris Stone
Non-Executive Chair
6 September 2022

Tim Kowalski
Chief Financial Officer
6 September 2022

Consolidated income statement
for the year ended 31 May 2022

	Notes	2022 £m	2021 £m
Revenue	4	**314.8**	270.5
Cost of sales	4	**(182.2)**	(159.9)
Gross profit	4	**132.6**	110.6
Administrative expenses			
Depreciation and amortisation		**(19.7)**	(19.7)
Other administrative expenses		**(77.3)**	(60.9)
Individually Significant Items		**(0.9)**	(12.7)
Total administrative expenses		**(97.9)**	(93.3)
Operating profit	4	**34.7**	17.3
Finance costs		**(3.7)**	(2.5)
Profit before taxation		**31.0**	14.8
Taxation	6	**(8.0)**	(4.8)
Profit for the year attributable to the owners of the Company		**23.0**	10.0

Earnings per ordinary share	8		
Basic EPS		**7.4p**	3.6p
Diluted EPS		**7.4p**	3.5p

Consolidated statement of comprehensive income/(loss)
for the year ended 31 May 2022

	2022 £m	2021 £m
Profit for the year attributable to the owners of the Company	**23.0**	10.0
Other comprehensive income/(loss)		
Items that may be reclassified subsequently to profit or loss (net of tax)		
Cash flow hedges – effective portion of changes in fair value	**(0.1)**	(0.8)
Foreign exchange translation differences	**14.8**	(11.6)
Total other comprehensive income/(loss)	**14.7**	(12.4)
Total comprehensive income/(loss) for the year (net of tax) attributable to the owners of the Company	**37.7**	(2.4)

Consolidated balance sheet
at 31 May 2022

	Notes	**31 May 2022 £m**	31 May 2021 £m
Non-current assets			
Goodwill	9	**266.1**	182.9
Intangible assets	9	**118.6**	21.0
Property, plant and equipment		**12.9**	11.5
Right-of-use assets		**22.0**	23.8
Investments		**0.3**	0.3
Deferred tax asset		**1.4**	2.0
Total non-current assets		**421.3**	241.5
Current assets			
Inventories		**0.9**	1.1
Trade and other receivables		**77.7**	68.7
Derivative financial instruments		**0.2**	–
Current tax receivable		**3.1**	4.5
Cash and cash equivalents		**73.2**	116.5
Total current assets		**155.1**	190.8
Total assets		**576.4**	432.3
Current liabilities			
Trade and other payables		**48.3**	45.2
Borrowings	10	**18.5**	–
Lease liabilities		**5.4**	5.1
Current tax payable		**7.4**	4.0
Derivative financial instruments		–	0.8
Contingent consideration	12	**1.9**	–
Provisions	11	**2.7**	2.4
Contract liabilities – deferred revenue		**61.7**	43.6
Total current liabilities		**145.9**	101.1
Non-current liabilities			
Borrowings	10	**107.1**	33.2
Lease liabilities		**27.2**	29.3
Deferred tax liabilities		**1.6**	1.2
Provisions	11	**0.8**	0.6
Contract liabilities – deferred revenue		**0.6**	0.7
Total non-current liabilities		**137.3**	65.0
Total liabilities		**283.2**	166.1
Net assets		**293.2**	266.2
Equity			
Share capital		**3.1**	3.1
Share premium		**224.0**	223.2
Hedging reserve		**-**	(0.8)
Merger reserve		**42.3**	42.3
Currency translation reserve		**35.1**	20.3
Retained earnings		**(11.3)**	(21.9)
Total equity attributable to equity holders of the Parent		**293.2**	266.2

These Financial Statements were approved and authorised for issue by the Board of Directors on 6 September 2022. They were signed on its behalf by:

Chris Stone
Non-Executive Chair
6 September 2022

Tim Kowalski
Chief Financial Officer
6 September 2022

Consolidated cash flow statement
for the year ended 31 May 2022

	Notes	2022 £m	2021 £m
Cash flows from operating activities			
Profit for the year		**23.0**	10.0
Adjustments for:			
Depreciation of property, plant and equipment		**3.9**	4.4
Depreciation of right-of-use assets		**5.4**	5.9
Share-based payments		**3.9**	2.8
Cash-settled share-based payments		**(0.5)**	–
Amortisation of customer contracts and relationships		**8.6**	6.4
Amortisation of software and development costs		**1.8**	3.0
Impairment reversal of right-of-use assets		**(0.1)**	–
Lease financing costs		**1.2**	1.2
Other financing costs		**2.5**	1.3
Foreign exchange		**(0.6)**	1.5
Acquisition of businesses – transaction costs		**(7.3)**	(1.2)
Individually Significant Items (non-cash impact)		–	7.6
Profit on disposal of right-of-use assets		–	(0.2)
Profit on sale of intangible assets		–	(0.5)
Loss on sale of property, plant and equipment		–	0.2
Research and development UK tax credits		**(1.0)**	(0.6)
Research and development US tax credits		**(1.1)**	1.9
Income tax expense		**9.1**	2.9
Increase in provisions		**0.5**	0.7
Cash inflow for the year before changes in working capital		**49.3**	47.3
(Increase)/decrease in trade and other receivables		**(1.8)**	4.7
Decrease/(increase) in inventories		**0.2**	(0.2)
Increase/(decrease) in trade and other payables		**12.6**	(5.5)
Cash generated from operating activities before interest and taxation		**60.3**	46.3
Interest element of lease payments		**(1.2)**	(1.2)
Other interest paid		**(2.1)**	(1.1)
Taxation paid		**(2.2)**	(5.1)
Net cash generated from operating activities		**54.8**	38.9
Cash flows from investing activities			
Acquisition of trade and assets as part of business combinations	12	**(153.0)**	–
Purchase of property, plant and equipment		**(5.2)**	(2.7)
Software and development expenditure		**(3.0)**	(2.1)
Proceeds from sale of intangible assets		–	0.5
Net cash used in investing activities		**(161.2)**	(4.3)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital		**0.8**	72.6
Principal element of lease payments		**(5.3)**	(6.0)
Drawdown of borrowings (net of deferred issue costs)		**120.7**	–
Issue costs related to borrowings		**(0.6)**	–
Repayment of borrowings		**(39.4)**	(60.4)
Equity dividends paid	7	**(14.4)**	(13.0)
Net cash generated from/(used in) financing activities		**61.8**	(6.8)
Net (decrease)/increase in cash and cash equivalents		**(44.6)**	27.8
Cash and cash equivalents at beginning of year		**116.5**	95.0
Effect of foreign currency exchange rate changes		**1.3**	(6.3)
Cash and cash equivalents at end of year		**73.2**	116.5

Reconciliation of net change in cash and cash equivalents to movement in net (debt)/cash [1]

	2022 £m	2021 £m
Net (decrease)/increase in cash and cash equivalents	**(44.6)**	27.8
Change in (net debt)/cash [1] resulting from cash flows (net of deferred issue costs)	**(81.3)**	60.4
Interest incurred on borrowings	**2.1**	(1.1)
Interest paid on borrowings	**(2.1)**	1.1
Release of deferred issue costs	**(0.4)**	(0.2)
Issue costs related to borrowings	**0.6**	–
Effect of foreign currency on cash flows	**1.3**	(6.3)
Foreign currency translation differences on borrowings	**(11.3)**	5.8
Change in (debt)/cash [1] during the year	**(135.7)**	87.5
Net cash/(debt) [1] at start of year excluding lease liabilities	**83.3**	(4.2)
Net (debt)/cash [1] at end of year excluding lease liabilities	**(52.4)**	83.3
Lease liabilities	**(32.6)**	(34.4)
Net (debt)/cash [1] at end of year	**(85.0)**	48.9

Footnote:
1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

Consolidated statement of changes in equity

for the year ended 31 May 2022

	Notes	Share capital £m	Share premium £m	Hedging reserve £m	Merger reserve £m	Currency translation reserve £m	Retained earnings £m	Total £m
Balance at 1 June 2020		2.8	150.9	–	42.3	31.9	(22.0)	205.9
Profit for the year		–	–	–	–	–	10.0	10.0
Other comprehensive income for the year		–	–	(0.8)	–	(11.6)	–	(12.4)
Total comprehensive income for the year		–	–	(0.8)	–	(11.6)	10.0	(2.4)
Transactions with owners recorded directly in equity								
Dividends to equity shareholders	7	–	–	–	–	–	(13.0)	(13.0)
Share-based payments		–	–	–	–	–	2.8	2.8
Tax on share-based payments		–	–	–	–	–	0.3	0.3
Shares issued		0.3	72.3	–	–	–	–	72.6
Total contributions by and distributions to owners		0.3	72.3	–	–	–	(9.9)	62.7
Balance at 31 May 2021		3.1	223.2	(0.8)	42.3	20.3	(21.9)	266.2
Profit for the year		–	–	–	–	–	**23.0**	**23.0**
Other comprehensive income for the year		–	–	**(0.1)**	–	–	–	**(0.1)**
Foreign currency translation differences		–	–	–	–	**14.8**	–	**14.8**
Total comprehensive income for the year		–	–	**(0.1)**	–	**14.8**	**23.0**	**37.7**
Transactions with owners recorded directly in equity								
Dividends to equity shareholders	7	–	–	–	–	–	**(14.4)**	**(14.4)**
Transfer hedging reserve to retained earnings		–	–	**0.9**	–	–	**(0.9)**	–
Share-based payments		–	–	–	–	–	**3.2**	**3.2**
Tax on share-based payments		–	–	–	–	–	**(0.3)**	**(0.3)**
Shares issued		–	**0.8**	–	–	–	–	**0.8**
Total contributions by and distributions to owners		–	**0.8**	**0.9**	–	–	**(12.4)**	**(10.7)**
Balance at 31 May 2022		**3.1**	**224.0**	–	**42.3**	**35.1**	**(11.3)**	**293.2**

Notes to the audited condensed consolidated financial statements

1 Accounting policies

Basis of preparation
NCC Group plc (the 'Company') is a public company incorporated in the UK, with its registered office at XYZ Building, 2 Hardman Boulevard, Manchester M3 3AQ. The Group Financial Statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The principal activity of the Group is the provision of independent advice and services to customers through the supply of cyber assurance and Software Resilience services.

The financial information is derived from the Group's consolidated financial statements for the year ended 31 May 2022, which have been prepared on the going concern basis in accordance with UK-adopted international accounting standards ("UK-adopted IFRS"). The condensed financial statements have been prepared on the historical cost basis, except for consideration payable on acquisitions that is measured at fair value at the date of the acquisition. The condensed financial statements are presented in Sterling (£m) because that is the currency of the principal economic environment in which the Company operates. The consolidated financial statements were approved by the Directors on 6 September 2022.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 May 2022 or 31 May 2021. The financial information for 2021 is derived from the statutory accounts for 2021 which have been delivered to the registrar of companies. The auditor has reported on the 2021 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditor 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. The statutory accounts for 2022 will be finalised on the basis of the financial information presented by the directors in this preliminary announcement and will be delivered to the registrar of companies in due course.

As required by the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority the condensed set of financial statements has been prepared applying the accounting policies and presentation that were applied in the company's published consolidated financial statements for the year ended 31 May 2021, which were prepared in accordance with IFRSs as adopted for use in the UK. They do not contain all the information required for full financial statements and should be read in conjunction with the annual financial statements for the year ended 31 May 2022. The financial statements of the Group for the year ended 31 May 2021 are available from the Company's registered office, or from the website www.nccgroup.com.

Ukraine conflict
Management has reviewed the potential impact of the Ukraine conflict on the consolidated Financial Statements. The conflict is not considered to have a direct material impact due to the Group having limited direct exposure in the affected region. The conflict has an indirect impact due to the increased risks arising from the global economic impact on inflation and interest rates. Additionally, the Group will seek to deliver any additional revenue opportunities to provide additional cyber security services as a result of the conflict.

Climate change
The Directors have reviewed the potential impact of Climate change and the Task Force on Climate-Related Financial Disclosures (TCFD) on the consolidated Financial Statements. Our overall exposure to physical and transitional climate change is considered low due to the nature of the business and cyber resilience industry.

Going concern
The Directors have acknowledged guidance published in relation to going concern assessments. The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review and Financial Review. The Group's financial position, cash and borrowing facilities are also described within these sections.

The Financial Statements have been prepared on a going concern basis which the Directors consider to be appropriate for the following reasons.

The Directors have prepared cash flow and covenant compliance forecasts for the 12 month period ending 30 September 2023 which indicate that, taking account of severe but plausible downsides on the operations of the Group and its financial resources, the Group and Company will have sufficient funds to meet their liabilities as they fall due for that period.

The going concern period is required to cover a period of at least 12 months from the date of approval of the Financial Statements and the Directors still consider this 12 month period to be an appropriate assessment period due to the Group's financial position and trading performance and that its borrowing facilities do not expire until June 2024. The Directors have considered whether there are any significant events beyond the 12 month period which would suggest this period should be longer but have not identified any such conditions or events.

The Group is financed primarily by a £100m committed revolving credit facility that matures in June 2024. Under these banking arrangements, the Group can also request (seeking bank approval) an additional accordion facility to increase the total size of the revolving credit facility by up to £75m. This accordion facility has not been taken into account in the Group's going concern assessment as it requires bank approval and is therefore uncommitted as at the date of approval of these Financial Statements.

On 7 June 2021, the Group acquired the IPM business for $216.1m after a final positive net working capital adjustment of £3.9m to the original purchase price of $220m; the US acquisition was funded through an equity placing in May 2021 of £70.2m (net proceeds) combined with a new three year $70m term loan, existing cash balances and our existing revolving credit facility. During the year ended 31 May 2022, the Group incurred further cash transaction costs of £7.3m in relation to the acquisition. On 10 June 2022, $23.3m of the term loan was repaid, and $23.3m is to be repaid on 10 June 2023 and $23.4m on 10 June 2024.

As of 31 May 2022, net debt (excluding lease liabilities) [1] amounted to £52.4m which comprised cash of £73.2m, a drawn revolving credit facility of £71.0m, and the term loan of £55.4m, with borrowings offset by arrangement fees of £0.8m. In relation to the drawn revolving credit facility, £20.4m is drawn down for working capital requirements and £50.6m in relation to the US acquisition of IPM. Headroom on the Group's banking facilities amounts to £101.9m. In the year ended 31 May 2022, the Group has not taken any of the UK government's Covid-19 Corporate Financing Facility (CCFF) or any other forms of government support worldwide as a result of the Covid-19 pandemic. The Group's day-to-day working capital requirements are met through existing cash resources, the revolving credit facility and receipts from its continuing business activities.

The Group is required to comply with the same financial covenants on both banking facilities for leverage (net debt to Adjusted EBITDA [1]) and interest cover (Adjusted EBITDA [1] to interest charge) that are tested bi-annually on 31 May and 30 November each year. As of 31 May 2022, leverage [1] amounted to 0.9x (2021: (1.8x) as cash positive prior to the acquisition) and net interest cover [1] amounted to 23.4x (2021: 34.1x) compared to a maximum of 3.0x and a minimum of 3.5x respectively. 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 with the exceptions being net debt excludes IFRS 16 lease liabilities and Adjusted EBITDA [1] excludes amortisation of acquired intangibles, share-based payments and Individually Significant Items. The Group was in compliance with the terms of all its facilities during the year, including the financial covenants on 30 November 2021 and 31 May 2022, and, based on forecasts, expects to remain in compliance over the going concern period. In addition, the Group has not sought or is not planning to seek any waivers to its existing facilities.

Although the Group has demonstrated resilience and consistent cash generation over the last few years, in a challenging environment, the continuing global macro-economic risks could have an effect on the Group's future performance, particularly in relation to cost inflationary pressures. As a result the base case going concern assessment includes a level of inflationary cost increases together with continued day rate price rises to customers. The Group has not been significantly adversely impacted by the Ukraine conflict.

The Directors have prepared a number of severe but plausible scenarios as follows:

1. The performance of FY23 continues to be similar to that of FY22, including the impact on regional and international operations of the Group and a potential reduction in double-digit revenue growth to 9% growth and subsequent impact on margin.

2. Failure of execution of the strategy and loss of key customers resulting in a reduction in revenue and a consequential impact on profitability and cash generation of £22.5m for the going concern period.

3. Software Resilience performance does not achieve expected digit revenue growth in all territories and experiences a 1% revenue decline.

4. Further inflationary pressures up to 6% arise over the existing base case going concern assessment of 4% and certain day rate price rises to customers do not occur.

These scenarios have been modelled individually in order to assess the Group's ability to withstand specific challenges. The Directors do not believe it is plausible for all of the above downside scenarios to occur concurrently; however, they have modelled scenarios combining risks (3 and 4) and combining risks (1 and 4) because of the Group's historical Software Resilience performance and current global economic uncertainty. The impact of these severe but plausible scenarios has been reviewed against the Group's projected cash flow position, available committed bank facilities and compliance with financial covenants. These forecasts, including the severe but plausible downsides, show that the Group is able to operate within its available committed banking facilities, with no forecasted covenant breaches or requirement for facility waivers, and that the Group will have sufficient funds to meet its liabilities as they fall due for that period.

From a Company perspective, the Company places reliance on other Group trading entities for financial support. The Company controls these Group entities and therefore has the ability to direct the financial activities of the Group. Having reviewed the current trading performance, forecasts, debt servicing requirements, total facilities and risks, the Directors are confident that the Company and the Group will have sufficient funds to continue to meet their liabilities as they fall due for a period of at least 12 months from the date of approval of these consolidated Financial Statements, which is determined as the going concern period. Accordingly, the Directors continue to adopt the going concern basis of accounting in preparing the Group's Financial Statements for the period ended 31 May 2022.

There are no post-Balance Sheet events which the Directors believe impact the going concern assessment.

Individually Significant Items

Individually Significant Items are identified as those items or projects that based on their size and nature and/or incidence are assessed to warrant separate disclosure to provide supplementary information to support the understanding of the Group's financial performance. Where a project spans reporting period(s) the total project size and nature are considered in totality. Individually Significant Items typically comprise costs/profits/losses on material acquisitions/disposals/business exits, fundamental reorganisation/restructuring programmes and other significant one-off events. Individually Significant Items are considered to require separate presentation in the notes to the Financial Statements in order to fairly present the financial performance of the Group.

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements requires management to exercise judgement in applying the Group's accounting policies. Different judgements would have the potential to change the reported outcome of an accounting transaction or Statement of Financial Position. It also requires the use of estimates that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis, with changes recognised in the period in which the estimates are revised and in any future periods affected. The table below shows those areas of critical accounting judgements and estimates that the Directors consider material and that could reasonably change significantly in the next year.

Accounting area	Accounting Judgement ?	Accounting Estimate ?
Valuation of separately identifiable intangible assets	No	Yes

2.1 Critical accounting judgements

No critical accounting judgements have been made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated Financial Statements.

2.2 Key sources of estimation uncertainty

Information about estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying values of assets and liabilities within the next financial year is addressed below.

Whilst every effort is made to ensure that such estimates and assumptions are reasonable, by their nature they are uncertain, and as such changes in estimates and assumptions may have a material impact. Estimates and assumptions used in the preparation of the Financial Statements are continually reviewed and revised as necessary at each reporting date.

The Directors have considered the impact of climate change on the following estimation uncertainties. Due to nature of the climate change impact on the Group, no material impact has been identified.

Valuation of separately identifiable intangible assets

As part of the acquisition of the IPM business (see note 12) the Group has acquired an intangible asset relating to the customer relationships acquired with a fair value of £91.4m. The valuation approach taken is an income approach, specifically the multi-period excess earnings method (MEEM). As part of this valuation exercise certain key sources of estimation uncertainty have been identified that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year. A description of such estimates and reasonably possible sensitivities is described in note 12.

3 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 and reported to the Board, and 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.

We believe these APMs provide readers with important additional information on our business and this information is relevant for use by investors, securities analysts and other interested parties as supplemental measures of future potential performance. However, since statutory measures can differ significantly from the APMs and may be assessed differently by the reader, we encourage you to consider these figures together with statutory reporting measures noted. Specifically, we would note that APMs may not be comparable across different companies and that certain profit related APMs may exclude recurring business transactions (e.g. acquisition related costs and certain share-based payment charges) that impact financial performance and cash flows.

As the Group manages internally its performance at an Adjusted operating profit level (before Individually Significant Items, amortisation of acquired intangibles and share-based payments), which management believes represents the underlying trading of the business; this information is still disclosed as an APM. This APM is reconciled to statutory operating profit, together with the consequently Adjusted basic EPS (before amortisation of acquisition intangibles, share-based payments and Individually Significant Items and tax effect thereon), to statutory basic EPS.

The Group has the following APMs/non-statutory measures:

- Adjusted EBITDA (reconciled below)
- Adjusted operating profit (reconciled below)
- Adjusted basic EPS (pence) (reconciled in Note 8)
- Net (debt)/cash excluding lease liabilities (reconciled below)
- Net (debt)/cash (reconciled below)
- Cash conversion (reconciled below)
- Constant currency revenue (reconciled below)
- Revenue excluding IPM acquisition (reconciled below)
- Software Resilience revenue excluding IPM acquisition (reconciled below)

The above APMs are consistent with those reported for the year ended 31 May 2021, except for the inclusion of revenue excluding IPM acquisition and Software Resilience revenue excluding IPM acquisition to allow stakeholders to understand the revenue performance of the existing business for the year ended 31 May 2022 prior to acquiring IPM in June 2021. In comparison to those APMs reported for the period ended 30 November 2021, one APM (cash conversion excluding IPM acquisition costs) has been removed to reduce the level of APMs reported.

The Group also reports certain geographic regions on a constant currency basis to reflect the underlying performance taking into account constant foreign exchange rates period on period. This involves translating comparative numbers to current period rates for comparability to enable a growth factor to be calculated. As these measures are not statutory revenue numbers, management considers these to be APMs and they are also reconciled below.

Further detail is included within the Glossary of terms to these Financial Statements that provide supplementary information that assists the user in understanding these APMs/non-statutory measures.

Adjusted EBITDA and Adjusted operating profit

The calculation of Adjusted EBITDA and Adjusted operating profit is set out below:

	2022 £m	2021 £m
Operating profit	**34.7**	17.3
Depreciation of property, plant and equipment	**3.9**	4.4
Depreciation of right-of-use assets	**5.4**	5.9
Amortisation of customer contracts and relationships (acquired intangibles)	**8.6**	6.4
Amortisation of software and development costs	**1.8**	3.0
Individually Significant Items (Note 5)	**0.9**	12.7
Share-based payments charge	**3.9**	2.8
Adjusted EBITDA	**59.2**	52.5
Depreciation and amortisation (excluding amortisation charged on acquired intangibles)	**(11.1)**	(13.3)
Adjusted operating profit	**48.1**	39.2

Net (debt)/cash

The calculation of net (debt)/cash is set out below:

	2022 £m	2021 £m
Cash and cash equivalents	**73.2**	116.5
Borrowings	**(125.6)**	(33.2)
Net (debt)/cash excluding lease liabilities	**(52.4)**	83.3
Lease liabilities	**(32.6)**	(34.4)
Net (debt)/cash	**(85.0)**	48.9

Cash conversion ratio

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

	2022 £m	2021 £m
Cash generated from operating activities before interest and taxation (A)	**60.3**	46.3
Adjusted EBITDA (B)	**59.2**	52.5
Cash conversion ratio (%) (A)/(B)	**101.9%**	88.2%

Net operating cash flow before interest and taxation includes the cash outflow from acquisition costs of £7.3m (2021: £1.2m). Adjusting the cash conversion ratio for these acquisition costs would give rise to a cash conversion ratio of 114.2% compared to the prior period of 90.5%.

Constant currency revenue

The following tables show how constant currency revenue growth has been calculated and reconciled to statutory actual rate growth.

Group

Revenue:

	Revenue 2022 £m	Revenue 2021 £m	% change at actual rates	**Revenue 2022 £m**	Constant currency revenue 2021 £m	% change at constant currency
Revenue	**314.8**	270.5	*16.4%*	**314.8**	*267.0*	*17.9%*

Revenue excluding the performance of IPM:

	Revenue 2022 £m	Revenue 2021 £m	% change at actual rates	**Revenue 2022 £m**	Constant currency revenue 2021 £m	% change at constant currency
Revenue	**314.8**	270.5	*16.4%*	**314.8**	*267.0*	*17.9%*
Less: IPM acquisition	**(20.2)**	–	*n/a*	**(20.2)**	–	*n/a*
Revenue excluding IPM acquisition	**294.6**	270.5	*8.9%*	**294.6**	*267.0*	*10.3%*

Assurance

Assurance revenue analysis – by originating country:

	Revenue 2022 £m	Revenue 2021 £m	% change at actual rates	**Revenue 2022 £m**	Constant currency revenue 2021 £m	% change at constant currency
UK & APAC	**114.6**	102.7	11.6%	**114.6**	*102.5*	*11.8%*
North America	**94.1**	82.7	13.8%	**94.1**	*82.1*	*14.6%*
Europe	**49.8**	48.5	2.7%	**49.8**	*46.1*	*8.0%*
Total Assurance revenue	**258.5**	233.9	10.5%	**258.5**	*230.7*	*12.1%*

	Revenue H1 2022 £m	Revenue H1 2021 £m	% change at actual rates	**Revenue H1 2022 £m**	Constant currency revenue H1 2021 £m	% change at constant currency
UK & APAC	**54.6**	50.9	*7.3%*	**54.6**	*50.8*	*7.5%*
North America	**44.0**	43.0	*2.3%*	**44.0**	*40.4*	*8.9%*
Europe	**24.6**	23.2	*6.0%*	**24.6**	*22.0*	*11.8%*
Total Assurance revenue	**123.2**	117.1	*5.2%*	**123.2**	*113.2*	*8.8%*

	Revenue H2 2022 £m	Revenue H2 2021 £m	% change at actual rates	**Revenue H2 2022 £m**	Constant currency revenue H2 2021 £m	% change at constant currency
UK & APAC	**60.0**	51.8	*15.8%*	**60.0**	*51.7*	*16.1%*
North America	**50.1**	39.7	*26.2%*	**50.1**	*41.7*	*20.1%*
Europe	**25.2**	25.3	*(0.4%)*	**25.2**	*24.1*	*4.6%*
Total Assurance revenue	**135.3**	116.8	*15.8%*	**135.3**	*117.5*	*15.1%*

Assurance revenue analysed by type of service/product line:

	Revenue 2022 £m	Revenue 2021 £m	% change at actual rates	**Revenue 2022 £m**	Constant currency revenue 2021 £m	% change at constant currency
Global Professional Services (GPS)	**189.0**	172.2	9.8%	**189.0**	*170.2*	*11.0%*
Global Managed Services (GMS)	**58.6**	56.2	4.3%	**58.6**	*54.9*	*6.7%*
Product sales (own and third party)	**10.9**	5.5	98.2%	**10.9**	*5.6*	*94.6%*
Total Assurance revenue	**258.5**	233.9	10.5%	**258.5**	*230.7*	*12.1%*

Software Resilience

Software Resilience revenue analysis – by originating country:

	Revenue 2022 £m	Revenue 2021 £m	% change at actual rates	**Revenue 2022 £m**	Constant currency revenue 2021 £m	% change at constant currency
UK	**25.4**	25.2	0.8%	**25.4**	*25.2*	*0.8%*
North America	**26.8**	7.3	267.1%	**26.8**	7.1	*277.5%*
Europe	**4.1**	4.1	-	**4.1**	*4.0*	*2.5%*
Total Software Resilience revenue	**56.3**	36.6	53.8%	**56.3**	*36.3*	*55.1%*

Software Resilience revenue analysis – by originating country excluding the performance of IPM:

	Revenue 2022 £m	Revenue 2021 £m	% change at actual rates	**Revenue 2022 £m**	Constant currency revenue 2021 £m	% change at constant currency
UK	**24.5**	25.2	(2.8%)	**24.5**	*25.2*	(2.8%)
North America	**7.5**	7.3	2.7%	**7.5**	7.1	5.6%
Europe	**4.1**	4.1	-	**4.1**	*4.0*	2.5%
Total Software Resilience revenue excluding IPM	**36.1**	36.6	(1.4%)	**36.1**	*36.3*	(0.6%)
IPM	**20.2**	-	n/a	**20.2**	-	n/a
Total Software Resilience revenue	**56.3**	36.6	53.8%	**56.3**	*36.3*	*55.1%*

	Revenue H1 2022 £m	Revenue H1 2021 £m	% change at actual rates	**Revenue H1 2022 £m**	Constant currency revenue H1 2021 £m	% change at constant currency
UK	**12.2**	12.8	(4.7%)	**12.2**	*12.8*	(4.7%)
North America	**3.4**	3.7	(8.1%)	**3.4**	3.4	-
Europe	**2.0**	2.0	-	**2.0**	*2.0*	-
Total Software Resilience revenue excluding IPM	**17.6**	18.5	(4.9%)	**17.6**	*18.2*	(3.3%)
IPM	**9.3**	-	n/a	**9.3**	-	n/a
Total Software Resilience revenue	**26.9**	18.5	45.4%	**26.9**	*18.2*	47.8%

	Revenue H2 2022 £m	Revenue H2 2021 £m	% change at actual rates	Revenue H2 2022 £m	Constant currency revenue H2 2021 £m	% change at constant currency
UK	**12.3**	12.4	(0.8%)	**12.3**	*12.4*	(0.8%)
North America	**4.1**	3.6	13.9%	**4.1**	3.7	10.8%
Europe	**2.1**	2.1	-	**2.1**	*2.0*	5.0%
Total Software Resilience revenue excluding IPM	**18.5**	18.1	2.2%	**18.5**	*18.1*	2.2%
IPM	**10.9**	-	n/a	**10.9**	-	n/a
Total Software Resilience revenue	**29.4**	18.1	62.4%	**29.4**	*18.1*	62.4%

Software Resilience revenues analysed by service line:

	Revenue 2022 £m	Revenue 2021 £m	% change at actual rates	Revenue 2022 £m	Constant currency revenue 2021 £m	% change at constant currency
Software Resilience contracts	**38.1**	24.0	58.8%	**38.1**	*23.8*	60.1%
Verification services	**18.2**	12.6	44.4%	**18.2**	*12.5*	45.6%
Total Software Resilience revenue	**56.3**	36.6	53.8%	**56.3**	*36.3*	55.1%

Software Resilience revenues analysed by service line excluding the performance of IPM:

	Revenue 2022 £m	Revenue 2021 £m	% change at actual rates	Revenue 2022 £m	Constant currency revenue 2021 £m	% change at constant currency
Software Resilience contracts	**22.6**	24.0	(5.8%)	**22.6**	*23.8*	*(5.0%)*
Verification services	**13.5**	12.6	7.1%	**13.5**	*12.5*	*8.0%*
Total Software Resilience revenue excluding IPM	**36.1**	36.6	(1.4%)	**36.1**	*36.3*	*(0.6%)*

4 Segmental information

The Group is organised into the following two (2021: two) reportable segments: Assurance and Software Resilience. 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', which 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 homogeneous commercial and strategic market environments. Performance is measured based on reporting segment profit, which comprises Adjusted operating profit [1] and adjusting items are not allocated to business segments. Interest and tax are also not allocated to business segments and there are no intra-segment sales. The IPM business acquired on June 2021 is considered to be part of the Software Resilience business segment.

Segmental analysis 2022	Assurance £m	Software Resilience £m	Central and head office £m	Group £m
Revenue	**258.5**	**56.3**	**-**	**314.8**
Cost of sales	**(166.2)**	**(16.0)**	**-**	**(182.2)**
Gross profit	**92.3**	**40.3**	**-**	**132.6**
Gross margin %	**35.7%**	**71.6%**	**-**	**42.1%**
General administrative expenses allocated	**(53.2)**	**(17.5)**	**(2.7)**	**(73.4)**
Adjusted EBITDA [1]	**39.1**	**22.8**	**(2.7)**	**59.2**
Depreciation and amortisation	**(7.2)**	**(0.8)**	**(3.1)**	**(11.1)**
Adjusted operating profit [1]	**31.9**	**22.0**	**(5.8)**	**48.1**
Individually Significant Items (Note 5)	**-**	**(0.9)**	**-**	**(0.9)**
Amortisation of acquired intangibles	**(0.9)**	**(4.8)**	**(2.9)**	**(8.6)**
Share-based payments	**(2.1)**	**(0.3)**	**(1.5)**	**(3.9)**
Operating profit/(loss)	**28.9**	**16.0**	**(10.2)**	**34.7**
Finance costs				**(3.7)**
Profit before taxation				**31.0**
Taxation				**(8.0)**
Profit for the year				**23.0**

Segmental analysis 2021	Assurance £m	Software Resilience £m	Central and head office £m	Group £m
Revenue	233.9	36.6	–	270.5
Cost of sales	(149.5)	(10.4)	–	(159.9)
Gross profit	84.4	26.2	–	110.6
Gross margin %	36.1%	71.6%	–	40.9%
General administrative expenses allocated	(45.4)	(9.5)	(3.2)	(58.1)
Adjusted EBITDA [1]	39.0	16.7	(3.2)	52.5
Depreciation and amortisation	(9.4)	(0.7)	(3.2)	(13.3)
Adjusted operating profit [1]	29.6	16.0	(6.4)	39.2
Individually Significant Items (Note 5)	–	(7.6)	(5.1)	(12.7)
Amortisation of acquired intangibles	(1.3)	–	(5.1)	(6.4)
Share-based payments	(1.5)	(0.1)	(1.2)	(2.8)
Operating profit/(loss)	26.8	8.3	(17.8)	17.3
Finance costs				(2.5)
Profit before taxation				14.8
Taxation				(4.8)
Profit for the year				10.0

Footnote:
1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

Revenue is disaggregated by primary geographical market, by category and by timing of revenue recognition as follows:

	Assurance £m	**Software Resilience £m**	**2022 Total £m**	Assurance £m	Software Resilience £m	2021 Total £m
Revenue by originating country						
UK and APAC	**114.6**	**25.4**	**140.0**	102.7	25.2	127.9
North America	**94.1**	**26.8**	**120.9**	82.7	7.3	90.0
Europe	**49.8**	**4.1**	**53.9**	48.5	4.1	52.6
Total revenue	**258.5**	**56.3**	**314.8**	233.9	36.6	270.5

	Assurance £m	Software Resilience £m	2022 Total £m	Assurance £m	Software Resilience £m	2021 Total £m
Revenue by category						
Services	**247.6**	**56.3**	**303.9**	228.3	36.6	264.9
Products	**10.9**	**-**	**10.9**	5.6	–	5.6
Total revenue	**258.5**	**56.3**	**314.8**	233.9	36.6	270.5
Timing of revenue recognition:						
Services and products transferred over time	**49.6**	**37.6**	**87.2**	47.9	24.0	71.9
Services and products transferred at a point in time	**208.9**	**18.7**	**227.6**	186.0	12.6	198.6
Total revenue	**258.5**	**56.3**	**314.8**	233.9	36.6	270.5

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 1).

Individually Significant Items (ISIs)	2022 £m	2021 £m
Costs directly attributable to the acquisition of the IPM Software Resilience business	**0.9**	7.6
Cloud configuration and customisation costs	–	5.1
Total ISIs	**0.9**	12.7

Costs directly attributable to the acquisition of the IPM Software Resilience business

These costs are directly attributable to the material acquisition of the IPM Software Resilience business (see Note 12) and are therefore considered to meet the Group's policy for ISIs. The nature of the costs includes legal, accountancy, due diligence and other advisory services. The total costs amount to £8.5m, of which £0.9m (2021: £7.6m) has been charged to the Income Statement in the year ended 31 May 2022. Of the total costs of £8.5m of costs incurred the Group has seen a cash outflow of £7.3m (2021: £1.2m) in the year ended 31 May 2022. The difference between the cash outflow and the costs charged to the Income Statement relates to £6.4m of costs relating to services performed in the year ended 31 May 2021 but for which the cash outflow did not occur until the year ended 31 May 2022 in line with supplier payment terms.

Cloud configuration and customisation costs

These costs relate to the material spend previously capitalised in relation to the Group's Securing Growth Together digital transformation programme that have now been expensed within other administrative expenses following the adoption of the IFRIC agenda decision (as from 1 June 2021, are no longer considered part of the Group's Securing Growth Together digital transformation programme). These costs, as part of the Group's Securing Growth Together digital transformation programme met the Group's policy for ISIs.

6. Tax

Reconciliation of effective tax rate

	2022 £m	2021 £m
Profit before taxation	**31.0**	14.8
Current tax using the UK corporation tax rate of 19% (2021: 19%)	**5.9**	2.8
Effects of:		
Items not deductible/(assessable) for tax purposes	**0.5**	(0.5)
Adjustment to tax charge in respect of prior periods	**0.1**	(0.3)
Impact of prior year US R&D tax credits	**(1.1)**	1.9
Impact of current year US R&D tax credits	**(0.2)**	(0.3)
Differences between overseas tax rates	**1.7**	0.7
Movements in temporary differences not recognised	**1.2**	0.1
Movement in tax rate	**(0.1)**	0.4
Total tax expense	**8.0**	4.8

In the March 2021 Budget the UK government announced that legislation will be introduced in the Finance Bill 2021 to increase the main rate of UK corporation tax from 19% to 25%, effective 1 April 2023. This rate was substantively enacted on 24 May 2021 and therefore the deferred tax balances as at 31 May 2021 and 31 May 2022 are generally measured at a rate of 25%.

Tax uncertainties

The tax expense reported for the current year and prior year is affected by certain positions taken by management where there may be uncertainty. The most significant source of uncertainty arises from claims for US R&D tax credits relating to historical periods. Uncertainty arises as a result of a degree of uncertainty concerning interpretation of US legislation and because the statute of limitations has not expired. For the periods ended 31 May 2017 to 31 May 2022, the aggregate net current tax benefit to the Income Statement relating to the US R&D tax credits is £4.0m (2021: £2.7m). The gross deferred tax asset relating to the US R&D tax credits is £0.5m (2021: £1.0m), although due to the uncertainty a partial provision of £0.3m (2021: £0.6m) has been made against this asset. The gross cumulative amount of US R&D tax credits amounts to £9.3m (2021: £8.2m) and net cumulative amount of US tax credits amounts to £4.2m (2021: £3.1m), giving rise to a cumulative provision of £5.1m (2021: £5.1m). The cumulative provision of £5.1m comprises a deferred tax element (£0.3m) relating to tax credits as yet unutilised against US tax and a current tax element (£4.8m) relating to utilised tax credits. The latter provision will unwind as the statute of limitation windows expire for claims made in particular periods. The provision relating to utilised tax credits of £4.8m is expected to unwind as follows: FY23: £1.6m, FY24: £1.2m, FY25: £0.9m, FY26: £0.8m and FY27: £0.3m.

7. Dividends

	2022	2021
Dividends paid and recognised in the year	**14.4**	13.0
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 2022 of 3.15p per ordinary share (approximately £9.8m) was approved by the Board on 6 September 2022 and will be paid on 11 November 2022, to shareholders on the register at the close of business on 14 October 2022. The ex-dividend date is 13 October 2022. The dividend will be recommended to shareholders at the AGM on 2 November 2022. The dividend has not been included as a liability as at 31 May 2022. The payment of this dividend will not have any tax consequences for the Group.

8. Earnings per ordinary share (EPS)

Earnings per ordinary share are shown on a statutory and an adjusted basis to assist in the understanding of the performance of the Group.

	2022 £m	2021 £m
Statutory earnings (A)	**23.0**	10.0

	Number of shares m	Number of shares m
Basic weighted average number of shares in issue (C)	**309.5**	281.2
Dilutive effect of share options	**1.4**	1.5
Diluted weighted average shares in issue (D)	**310.9**	282.7

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.

	2022 Pence	2021 Pence
Earnings per ordinary share		
Basic (A/C)	**7.4**	3.6
Diluted (A/D)	**7.4**	3.5

Adjusted basic EPS [1] is reconciled as follows:

	2022 £m	2021 £m
Statutory earnings (A)	**23.0**	10.0
Amortisation of acquired intangibles	**8.6**	6.4
Share-based payments	**3.9**	2.8
Individually Significant Items (see Note 5)	**0.9**	12.7
Tax effect of above items	**(2.9)**	(5.1)
Adjusted earnings (B)	**33.5**	26.8

	2022 Pence	2021 Pence
Adjusted earnings per ordinary share		
Basic (B/C)	**10.8**	9.5
Diluted (B/D)	**10.8**	9.5

9. Goodwill and intangible assets

	Goodwill £m	Software £m	Development costs £m	Customer contracts and relationships £m	Intangibles sub-total £m	Total £m
Cost						
At 1 June 2020	259.3	12.8	11.5	88.2	112.5	371.8
Additions	–	1.7	0.6	–	2.3	2.3
Disposals	(10.2)	–	–	(13.0)	(13.0)	(23.2)
Effects of movements in exchange rates	(10.2)	–	(0.4)	(2.1)	(2.5)	(12.7)
At 31 May 2021	238.9	14.5	11.7	73.1	99.3	338.2
Additions	–	**1.6**	**1.3**	–	**2.9**	**2.9**
On acquisition (see Note 12)	**69.7**	**2.5**	–	**91.4**	**93.9**	**163.6**
Effects of movements in exchange rates	**13.5**	**0.1**	**(0.1)**	**12.3**	**12.3**	**25.8**
At 31 May 2022	**322.1**	**18.7**	**12.9**	**176.8**	**208.4**	**530.5**
Accumulated amortisation						
At 1 June 2020	(66.2)	(10.8)	(7.3)	(65.4)	(83.5)	(149.7)
Charge for year	–	(1.0)	(2.0)	(6.4)	(9.4)	(9.4)
Disposals	10.2	–	–	13.0	13.0	23.2
Effects of movements in exchange rates	–	–	0.3	1.3	1.6	1.6
At 31 May 2021	(56.0)	(11.8)	(9.0)	(57.5)	(78.3)	(134.3)
Charge for year	–	**(0.9)**	**(0.9)**	**(8.6)**	**(10.4)**	**(10.4)**
Effects of movements in exchange rates	–	–	**0.1**	**(1.2)**	**(1.1)**	**(1.1)**
At 31 May 2022	**(56.0)**	**(12.7)**	**(9.8)**	**(67.3)**	**(89.8)**	**(145.8)**
Net book value						
At 31 May 2022	**266.1**	**6.0**	**3.1**	**109.5**	**118.6**	**384.7**
At 31 May 2021	182.9	2.7	2.7	15.6	21.0	203.9

Development costs are capitalised in accordance with IAS 38 development criteria. For this reason, these are not regarded as realised losses.

Cash generating units (CGUs)

Goodwill and intangible assets are allocated to CGUs in order to be assessed for potential impairment. CGUs are defined by accounting standards as the lowest level of asset groupings that generate separately identifiable cash inflows that are not dependent on other CGUs. The Directors have reviewed the continuing applicability of the judgements made in the prior year in determining the CGUs within the Group and in allocating goodwill to these CGUs and are satisfied these judgements remain appropriate.

In respect of the IPM business acquired on 1 June 2021 (See Note 12), work to integrate this business into the wider North America Software Resilience CGU is ongoing and at 31 May 2022, the cash inflows relating to this business are considered to be separately identifiable. As such a new CGU has been identified relating to the acquired IPM business.

The CGUs and the allocation of goodwill to those CGUs are shown below:

Cash generating units	**Goodwill 2022 £m**	Goodwill 2021 £m
UK Software Resilience	**22.9**	22.9
IPM Software Resilience	**76.9**	-
North America Software Resilience	**8.5**	7.5
Europe Software Resilience	**7.3**	7.2
Total Software Resilience	**115.6**	37.6
UK and APAC Assurance	**45.4**	44.2
North America Assurance	**39.9**	36.4
Europe Assurance	**65.2**	64.7
Total Assurance	**150.5**	145.3
Total Group	**266.1**	182.9

Impairment review

Goodwill is tested for impairment annually at the level of the CGU to which it is allocated. For the year ended 31 May 2021, the recoverable amount of all CGUs concerned was measured on a value in use basis (VIU). For the year ended 31 May 2022, the recoverable amount of all CGUs concerned was measured on a value in use basis (VIU), with the exception of the Europe Assurance CGU and the IPM Software Resilience CGU which was measured on a fair value less costs to sell basis.

The Directors have considered the impact of climate change on this review, with no material impact identified.

Fair value less costs to sell

For the year ended 31 May 2022, the recoverable amount of the Europe Assurance CGU and the IPM Software Resilience CGU has been determined on a fair value less costs to sell basis for the purposes of the impairment review. The Directors assessed the recoverable amount of these CGUs on a VIU basis, as in the prior period for Europe Assurance. The VIU calculations prepared for both CGUs are highly sensitive to changes in inputs which could suggest that they were less than the carrying value of assets. This is because the forecast growth rates applied beyond a period of five years are expected to be higher than the terminal growth rate that would be applied. Therefore, the Directors considered that the fair value less costs to sell exceeded the value in use.

The Europe Assurance CGU and IPM Software Resilience CGU valuation has been calculated by assessing the value of the standalone Europe Assurance and IPM Software Resilience business calculated using an EBITDA[1] multiple based on sustainable earnings for the year ended 31 May 2022 adjusted for specific items where relevant. For the IPM Software Resilience business, integration costs associated with combining the business into the wider Group have been added back to sustainable earnings used in the calculation. For the Europe Assurance CGU no material adjustments have been made to the sustainable earnings used in the calculation. The sustainable earnings input is a level 3 measurement; level 3 measurements are inputs which are normally unobservable to market participants.

The EBITDA[1] multiple used in the calculations is based on independent third party assessments of the implied enterprise value of the business based on a population of comparable companies and precedent transactions. The estimated cost of disposal was based on other recent transactions that the Group has undertaken.

Sensitivity analysis

The key assumptions used in the fair value less costs to sell calculation are the sustainable earnings used and the multiple applied to that EBITDA[1]. For the Europe Assurance CGU and the IPM Software Resilience CGU there is no reasonably possible change in those inputs that could give rise to an impairment.

Footnote:

1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

Value in use

VIU represents the present value of the future cash flows that are expected to be generated by the CGU to which the goodwill is allocated. Capitalised development and software costs are included in the CGU asset bases when performing the impairment review. Capitalised development projects and software intangible assets are also considered, on an asset-by-asset basis, for impairment where there are indicators of impairment.

VIU calculations are an area of material management estimation as set out in Note 2 to the consolidated Financial Statements. These calculations require the use of estimates (inputs), specifically: pre-tax cash flow projections; long-term growth rates; and a pre-tax discount rate.

Sensitivity analysis

Sensitivity analysis has been performed in respect of certain scenarios where management considers a reasonably possible change in key assumptions could occur. The outcome of applying sensitivity analysis in respect of the above inputs indicated that there is no reasonably possible scenario in which the carrying value of goodwill would be considered impaired.

10 Loans and borrowings

	2022 £m	2021 £m
Non-current		
Variable rate:		
Revolving credit facility	**(70.5)**	(33.2)
Bank term loan	**(36.6)**	–
	(107.1)	(33.2)
Current		
Variable rate:		
Bank term loan	**(18.5)**	–
Total loans and borrowings (excluding lease liabilities)	**(125.6)**	(33.2)
Cash	**73.2**	116.5
Net (debt)/cash (excluding lease liabilities) [1]	**(52.4)**	83.3
Non-current		
Lease liabilities	**(27.2)**	(29.3)
Current		
Lease liabilities	**(5.4)**	(5.1)
Net (debt)/cash [1]	**(85.0)**	48.9

The Group utilises a revolving credit facility (RCF) of £100m with a five year term expiring in June 2024. The interest payable on drawn down fund's ranges from 0.9% to 2.0% above SONIA/SOFR subject to the Group's leverage (net debt [1] to Adjusted EBITDA [1]) ratio. The Group can also request an additional accordion facility to increase the total size of the revolving credit facility by up to £75m. The Group is required to comply with financial covenants for leverage (net debt [1] to Adjusted EBITDA [1]), interest cover (Adjusted EBITDA [1] to interest charge) and provisions relating to guarantor coverage such that guarantors must exceed a prescribed threshold of the Group's gross assets and Adjusted EBITDA [1]. Covenants are tested bi-annually at 31 May and 30 November each year. Arrangement fees incurred of £1.0m are being amortised over the term with £0.4m unamortised as at 31 May 2022 (2021: £0.6m). Since the new facility is on broadly similar pricing terms to the previous facility, the refinancing has been accounted for as a non-substantial modification with no gain or loss arising on modification. On 12 May 2021, the Group entered into a new Term Loan Facility Agreement. The facility made available under the Facility Agreement (the 'Term Facility') is a $70m amortising term loan facility, to fund the acquisition of the IPM Software Resilience business. The rate of interest on each loan under the Term Facility is the percentage rate per annum which is equal to the aggregate of a compounded rate based on the secured overnight financing rate (SOFR) administered by the Federal Reserve Bank of New York and the margin (based on a leverage ratchet varying from 1.40% to 2.65% per annum). The Term Facility is repaid in annual instalments of $23.3m on each of 10 June 2022 and 10 June 2023, with a final instalment of $23.4m payable on 10 June 2024. Arrangement fees incurred of £0.6m will be amortised over the term with £0.4m unamortised as at 31 May 2022 (2021: £nil). The Term Facility Agreement also contains financial covenants relating to leverage and interest cover and provisions relating to guarantor coverage consistent with the RCF.

The RCF is drawn in short to medium-term tranches of debt that are repayable within 12 months of draw-down. These tranches of debt can be rolled over provided certain conditions are met, including compliance with all loan terms. The Group considers that it is highly unlikely it would not be in compliance and therefore be unable to exercise its right to roll over the debt. The Directors therefore believe that the Group has the ability and the intent to roll over the drawn RCF amounts when due and consequently has presented the RCF as a non-current liability.

As at 31 May 2022, the Group had committed bank facilities of £155.1m (2021: £149.3m), of which £126.4m (2021: £33.8m) had been drawn under these facilities, leaving £28.7m (2021: £115.5m) of undrawn facilities. Unamortised arrangement fees of £0.8m (2021: £0.6m) have been offset against the amounts drawn down, resulting in a carrying value of borrowings at 31 May 2022 of £125.6m (2021: £33.2m).

The fair value of borrowings is not materially different to its amortised cost.

Footnote:
1: See Note 3 for an explanation of Alternative Performance Measures (APMs) and adjusting items. Further information is also contained within the Financial Review and the Glossary of terms.

11 Provisions

	Loss-making contracts £m	Onerous property costs £m	Other provisions £m	Total £m
Balance as at 31 May 2020 and 1 June 2020	0.2	2.9	0.6	3.7
Reclassification to right-of-use assets	–	(1.4)	–	(1.4)
Reclassification	1.7	–	–	1.7
Provisions created in the year	1.9	1.0	–	2.9
Provisions utilised during the year	(2.7)	(0.8)	(0.4)	(3.9)
Balance as at 31 May 2021 and 1 June 2021	1.1	1.7	0.2	3.0
Provisions created in the year	**1.9**	**–**	**0.6**	**2.5**
Provisions utilised during the year	**(1.2)**	**(0.7)**	**(0.1)**	**(2.0)**
Balance as at 31 May 2022	**1.8**	**1.0**	**0.7**	**3.5**
Analysed as follows (2022):				
Current	**1.5**	**0.5**	**0.7**	**2.7**
Non-current	**0.3**	**0.5**	**–**	**0.8**
Analysed as follows (2021):				
Current	1.1	1.1	0.2	2.4
Non-current	–	0.6	–	0.6

The loss-making contracts provision represents the estimated remaining net lifetime loss on long-term development and supply contracts that are now expected to be fully completed in the 2023 calendar year mainly due to supply chain sourcing. It was expected in the prior year that these contracts would have been completed in 2022. During the year, revenue has been recognised in relation to these long-term contracts of £2.3m (2021: £1.8m).

The onerous property costs provision relates to unused floors in the Manchester head office building. The provision of £1.0m (2021: £1.7m) at 31 May 2022 includes £0.4m (2021: £1.2m) of non-rent costs relating to the onerous properties including service charges and insurance and also the estimated costs of disposing or terminating these leases which includes rent incentives, renovation costs and letting fees. The provision at 31 May 2022 also includes estimated dilapidations liabilities of £0.6m (2021: £0.5m) relating to the Group's leased premises. Both of these provisions are expected to unwind over the period of the relevant leases (2022 – 2034).

Other provisions of £0.7m (2021: £0.2m) include reorganisation and CEO transition costs to which the Group was committed at 31 May 2022 and are expected to be settled within the next financial year.

12 Acquisitions

Acquisition of IPM business

On 1 June 2021, shareholder approval was passed for the acquisition of the IPM business of Iron Mountain, comprising substantially all of the assets of Iron Mountain Intellectual Property Management, Inc. together with certain other assets of affiliates of Iron Mountain exclusively related to the IPM business. The primary reasons for the business combination are to:

- Scale up the Group's core business to create a global business and platform for further growth
- Generate revenue synergies through allowing the enlarged division to offer NCC's broader suite of established verification services as well as the newer Escrow-as-a-Service (EaaS) cloud offering to the IPM business' existing customer base
- Present an exciting new opportunity to sell NCC's cyber security services from its Assurance division into the IPM business' broad and blue-chip customer base in the medium term
- Be accretive to earnings per share from completion, even without factoring in revenue synergies
- Result in greater strategic strength for the future

Management considers shareholder approval of the transaction determines a change in control and therefore the date of shareholder approval is considered to be the acquisition date for the transaction. Shareholder approval was granted on 1 June 2021 and the IPM Software Resilience business has been consolidated into the Group results from that date (see Note 3). Transfer of consideration for the acquisition was made on 7 June 2021, which is commonly referenced within these Financial Statements as being the date of practical completion of the transaction.

Details of assets acquired that are subject to provisional fair value adjustments are noted below. The acquisition for an original total consideration of $220.0m was subsequently adjusted during the year ended 31 May 2022 to $216.1m (£152.0m) to reflect a normalised working capital adjustment of $2.7m and a final positive net working capital adjustment of $1.2m. The acquisition was funded through an equity net placing of £70.2m ($98.4m) on 17 May 2021 combined with a new three year $70m term loan and the remaining $47.7m funded via existing cash balances and our revolving credit facility. The term loan was entered into on 12 May 2021 but not drawn down until 2 June 2021.

The fair value of assets and liabilities acquired can be summarised as follows:

	Fair value £m
Identifiable intangible assets (note 9):	
- Customer relationships	91.4
- Computer software	1.2
Right-of-use assets	0.2
Trade and other receivables	3.8
Trade and other payables	(0.2)
Deferred income	(12.1)
Lease liabilities	(0.2)
Deferred tax liability	(0.7)
Total identifiable assets acquired, and liabilities assumed	**83.4**
Goodwill (note 12)	68.6
Total consideration	**152.0**
Satisfied by:	
Cash	**152.0**

No cash was acquired as part of the acquisition.

Total costs directly attributable to the acquisition of the IPM business totalling £8.5m have been expensed to Individually Significant Items during the year ended 31 May 2021 (£7.6m) and the year ended 31 May 2022 (£0.9m). Issue costs of £2.4m were incurred as part of the equity placing and have been debited to the share premium account in the year ended 31 May 2021.

The fair value of the financial assets includes trade receivables with a fair value of £3.8m and a gross contractual value of £5.2m.

The goodwill of £68.6m arising from the acquisition consists of the know-how and expertise of the employees transferred to NCC Group plc as part of the acquisition, the future economic benefit arising from the aligning of customers' existing products with the Group's products, and it's fit with existing operations. Goodwill is expected to be deductible for income tax purposes.

There is a contingent consideration arrangement that requires amounts to be repaid to NCC Group plc in the event that certain customers terminate their contractual agreements as a result of the change in ownership. The fair value of the contingent consideration potentially due to NCC Group plc is considered to be £nil by management. This fair value was estimated based on comparing the expected number of customers likely to terminate their contractual arrangements as a result of the change in ownership to the threshold for repayment to NCC Group plc. On 31 May 2022, no further information has become available that suggests the fair value of this contingent consideration will be greater than £nil.

During the 12 months since the acquisition of the IPM business a final working capital adjustment has been agreed with the vendor resulting in an amount of £0.8m being returned to the Group and giving rise to a decrease in the fair value of consideration of £0.8m to £152.0m. This adjustment leads to a decrease in goodwill of £0.8m. Additionally, management has identified new information in respect of the opening provision for expected credit losses and has subsequently decreased the fair value of acquired trade and other receivables by £0.8m to £3.8m. This adjustment leads to an increase in goodwill of £0.8m. On this basis, goodwill of £68.6m remains unchanged from that reported for the period ended 30 November 2021.

The IPM business contributed £20.2m of the Group's revenue, £15.6m to the Groups' gross profit and £2.9m operating profit for the period between the date of acquisition (1 June 2021) and 31 May 2022.

Measurement of fair values

Assets acquired	
Computer software	As there is no active market for such bespoke intangible assets a cost approach has been taken to value computer software acquired based on the cost to re-create the assets. The fair value is based on the estimated time required by appropriately skilled individuals to re-create such assets.
Customer relationships	The valuation approach taken is the income approach, specifically the multi-period excess earnings method (MEEM). The fundamental principle underlying the MEEM is isolating the net earnings attributable to the asset being measured. There are three key steps in calculating the MEEM: 1) Projecting financial information — cash flows, revenue, expenses, etc. — for the IPM business acquired. 2) Subtracting the cash flows attributable to all other assets through a contributory asset charge (CAC). The CAC is a form of economic rent for the use of all other assets in generating total cash flows that is composed of the required rate of return on all other assets and an amount necessary to replace the fair value of certain contributory intangible assets. 3) Calculating the cash flows attributable to the intangible asset subject to valuation and discounting them to present value. Cash flows are forecast through to FY28 and taken into perpetuity beyond this date. Cash flow forecasts include a level of growth in revenue in addition to specific growth synergies expected from the aligning of IPM customers' existing products with the Group's products and IPM's fit with existing operations. Cash flow forecasts include a level of customer attrition based on historical experience of IPM customer termination rates. Both the amount and the duration of the cash flows are considered from a market participant's perspective.
Lease liabilities	The Group measured the acquired lease liabilities using the present value of the remaining lease payments at the date of acquisition.
Right-of-use assets	The right-of-use assets were measured at an amount equal to the lease liabilities. No significant judgements have been identified as part of this assessment.

Deferred income	The fair value of the deferred revenue liability has been calculated using a top-down approach. This approach relies on market indicators of expected revenue for any obligation yet to be delivered with appropriate adjustments. This approach starts with the amount that an entity would receive in a transaction, less the cost of the selling effort (which has already been performed) including a profit margin on that selling effort.

The valuation of purchase price accounting is a key source of estimation uncertainty, in which there are several key assumptions where, if a reasonably possible change in assumption is made, this could result in a material adjustment. A description of the key assumptions and possible sensitivities is described below:

Description of key assumption	Reasonably possible scenario	Impact
The valuation of the customer relationships intangible asset of £91.4m assumes a discount rate of 10.7% driven by the internal rate of return implied by the consideration paid for the acquired business.	It is considered reasonably possible that this discount rate could be 1% higher or lower depending on the expected performance of the business post-acquisition.	The impact of increasing the discount rate by 1% would be to reduce the value of the customer relationship intangible asset by £6.0m with a corresponding increase in the value of goodwill arising on acquisition. The amortisation on acquired intangibles charged to the Income Statement for the year ended 31 May 2022 would reduce by £0.3m. The impact of decreasing the discount rate by 1% would be to increase the value of the customer relationship intangible asset by £6.8m with a corresponding decrease in the value of goodwill arising on acquisition. The amortisation on acquired intangibles charged to the Income Statement for the year ended 31 May 2022 would increase by £0.3m.
The valuation of the customer relationships intangible asset of £91.4m includes an estimate of a level of growth of the revenue generated from that customer base, post-acquisition. The forecasts used assume that revenue (excluding synergies) will increase incrementally to a maximum of a 3.7% annual increase in FY25 before returning to levels more consistent with the US long-term inflationary growth rate in FY26 and beyond.	It is considered reasonably possible that this growth rate does not exceed an inflationary US long-term inflationary growth rate of 2%.	The impact of this scenario is to reduce the value of the customer relationship intangible asset by £3.1m with a corresponding increase in the value of goodwill arising on acquisition. The amortisation on acquired intangibles charged to the Income Statement for the year ended 31 May 2022 would reduce by £0.2m.

Acquisition of Adelard business

On 20 April 2022, shareholder approval was passed for the acquisition of substantially all of the assets of Adelard LLP for £3m subject to normalised working capital adjustment. This gave rise to provisional goodwill of £1.1m, intangible assets of £1.3m, right of use assets £0.2m, trade receivables and other receivables £0.9m and current liabilities £0.5m. Consideration payable of £3m is represented by £1.0m cash and a further contingent consideration (dependent on novation of contracts and FY23 revenue performance) of £1.9m (discounted).

Adelard is an assurance expert in high value critical systems for national and industrial infrastructure and its services are complementary to the Group.

Glossary of terms – Alternative Performance Measures (APMs)

APMs are the way that financial performance is measured by management and reported to the Board, and the basis of financial measures for senior management's compensation schemes, and provide 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 measures:				
Constant currency revenue growth rates	Revenue growth rates at actual rates of currency exchange	Retranslation of comparative numbers at current year exchange rates to provide constant currency	3	The Group also reports certain geographic regions on a constant currency basis to reflect the underlying performance taking into account constant foreign exchange rates year on year. This involves translating comparative numbers to current year rates for comparability to enable a growth factor to be calculated.
Revenue excluding IPM acquisition	Revenue	Revenue excluding the revenue performance of the IPM acquisition	3	The Group reports revenue excluding the IPM acquisition to allow stakeholders to understand the revenue performance of the existing business for the year ended 31 May 2022 prior to acquiring IPM.
Software Resilience revenue excluding IPM acquisition	Revenue	Software Resilience revenue excluding the revenue performance of the IPM acquisition	3	The Group reports Software Resilience revenue excluding the IPM acquisition to allow stakeholders to understand the revenue performance of the existing Software Resilience business for the year ended 31 May 2022 prior to acquiring IPM.
Adjusted operating profit	Operating profit or loss	Operating profit or loss before amortisation of acquired intangibles, share-based payments and Individually Significant Items	3	Represents operating profit before amortisation of acquired intangibles, share-based payments and Individually Significant Items. This measure 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. The Directors consider amortisation of acquired intangibles is a non-cash accounting charge inherently linked to losses associated with historical acquisitions of businesses. 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.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition, purpose and considerations made by the Directors
				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.
Adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA)	Operating profit or loss	Operating profit or loss, before adjusting items, depreciation and amortisation, finance costs and taxation	3	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.
Adjusted basic EPS	Statutory basic EPS	Statutory basic EPS before amortisation of acquired intangibles, share-based payments, Individually Significant Items and the tax effect thereon	8	Represents basic EPS before amortisation of acquired intangibles, share-based payments and Individually Significant Items. This measure 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. See further details above in relation to amortisation of acquired intangibles and share-based payments.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition, purpose and considerations made by the Directors
Balance Sheet measures:				
Net cash/(debt) excluding lease liabilities	Total borrowings (excluding lease liabilities) offset by cash and cash equivalents		3	Represents total borrowings (excluding lease liabilities) 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 on a like-for-like basis. Net cash/(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.
Net cash/(debt)	Total borrowings (including lease liabilities) offset by cash and cash equivalents		3	Represents total borrowings (including lease liabilities) 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 including lease liabilities. Net cash/(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 divided by operating profit	Ratio % of net cash flow from operating activities before interest and tax divided by EBITDA	3	The cash conversion ratio is a measure of how effectively operating profit 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 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.