For immediate release 11 October 2017

PROACTIS Holdings PLC

Preliminary Results for the year to 31 July 2017

PROACTIS Holdings PLC ("PROACTIS", the "Group" or the "Company"), the specialist Spend Control solution provider, is pleased to announce its audited results for the year ended 31 July 2017.

Following the period under review, the Company acquired Perfect Commerce Group LLC ("Perfect"), which completed on 4 August 2017 and has since positioned PROACTIS as the sixth largest global ePurchasing pure-player by revenue.

Financial highlights:

- Reported revenue increased by 31% to £25.4m (2016: £19.4m)
- Underlying organic[1] growth of 9% (2016: 7%)
- Annualised Contracted Revenue[2] has increased by 28% to £22.6m (2016: £17.6m)
- Order Book[3] increased by 7% to £28.0m (2016: £26.1m)
- Adjusted[4] EBITDA increased by 49% to £7.9m (2016: £5.3m)
- Statutory operating loss was £2.6m (2016: profit £1.9m) due to non-recurring administrative expenses related to the acquisitions
- Adjusted[4] earnings per share increased by 25% to 9.0p (2016: 7.2p)
- Strong cash balances of £4.3m (2016: £3.6m)
- Net debt of £0.9m[5] (2016: net debt £0.5m)
- Increased proposed final dividend increased to 1.4p per share (2016: 1.3p)

Strategic highlights:

- Strategic acquisition of Millstream Associates Limited, completed 16 November 2016
- Appointment of new CEO, Hampton Wall, following acquisition of Perfect

Note 1: Weighted average growth of all the companies within the Proactis Group at 1 August 2016, ie. excluding Millstream and Perfect (the "Existing Group").
Note 2: Annualised Contracted Revenue is the Group's estimate of the annualised run rate of subscription, managed service, support and hosting revenues currently contracted with the Group ("ACR") as at 31 July 2017.
Note 3: Order Book is the Group's current contracted revenue as at 31 July 2017 to be recognised in future accounting periods.
Note 4: Before the impact of non-recurring administrative expenses (related to the Group's acquisition during the year and the post-acquisition integration and re-organisation programmes), amortisation of customer related intangible assets and share based payment charges.
Note 5: Following the acquisition of Perfect Commerce LLC on 4 August 2017, which was financed in part by new debt facilities provided by HSBC Bank plc, net debt has increased substantially to approximately £30m.

Alan Aubrey, Chairman, commented:

"The strong trading and financial performance has set a positive tone for what is set to be an exciting year ahead following the Group's transformational acquisition of Perfect Commerce post period end.

"Commercial progress was at normalised levels during the year with a strong performance in terms of new names, upselling and customer retention and future performance underpinned with high levels of forward visibility through recurring contracted income. There was a substantial improvement in the rate of profitability, both organically and as a result of the inclusion of the higher margin Millstream business. The acquisition of Millstream was the fifth acquisition in a three-year timeframe and, given the encouraging post-acquisition performance, the Group has, once again, demonstrated its ability to implement optimal integration strategies.

"The Group is now engaged heavily in the integration process with Perfect as it looks to realise the synergistic benefits of the acquisition, with its track record holding the Group in good stead. The Board is encouraged by the early stage progress it has achieved and also by trading in the first months within the Group, which has been in line with its expectations. M&A remains a fundamental part of the Group's growth strategy with a pipeline of opportunities under review.

"We are also pleased to welcome Hamp Wall to the business as Chief Executive Officer and are confident in his ability to lead the business forward at this exciting time in order to help the Group realise its growth strategy.

"The Group is well positioned for the coming year and the Board looks forward to driving further value for its shareholders."

The Company's preliminary results are available on its website www.proactis.com.

The information communicated in this announcement is inside information for the purposes of Article 7 of regulation 596/2014.

Enquiries:

PROACTIS Holdings PLC	
Hamp Wall, Chief Executive Officer	Via Redleaf Communications
Tim Sykes, Chief Financial Officer	
Redleaf Communications	
Elisabeth Cowell	020 7382 4752
Fiona Norman	PROACTIS@redleafpr.com
finnCap Ltd	020 7220 0500
Carl Holmes/Emily Watts – Corporate Finance	
Stephen Norcross – Corporate Broking	

Notes to Editors:
PROACTIS creates, sells and maintains specialist software and solutions that enable organisations to streamline, control and monitor all internal and external expenditure, other than payroll. PROACTIS is used in approximately 1,000 buying organisations around the world from the commercial, public and not-for-profit sectors.

PROACTIS is head quartered in London. It develops its own software using an in-house team of developers and sells through both direct and indirect channels via a number of Accredited Channel Partners.

PROACTIS floated on the AIM market of the London Stock Exchange in June 2006.

Strategic Report

The Group continues to deliver on its ambitious long-term strategy of building a Group exhibiting the following characteristics:

- High revenue growth rates;
- Security through absolute scale and high levels of recurring income;
- Profitability; and
- Yield through a dividend policy.

2017 has been a transformational year during which the Group grew strongly year on year over the historic reporting period. This was achieved both through its organic performance and by way of its acquisition of Millstream Associates Limited ("Millstream"). The Group's acquisition strategy was further delivered upon shortly after the end of the reporting period with the completion of the acquisition of Perfect Commerce LLC ("Perfect"), creating the sixth largest procurement solutions company by revenue, globally,

The Board believes that the acquisition of Perfect is an industry relevant transaction which enables the enlarged Group to service any procurement solution need of any customer in any of the main global markets. It has accelerated the Group's growth plans by several years and creates significant opportunities for revenue based synergies but also significant cost savings. The initial priority is on business integration and the Group is now deeply into the planning and execution phases of this work.

Growth strategy

The Group's growth strategy remains unchanged and is as follows:

- Drive growth in its businesses through the delivery of best in class procurement solutions for its customers. The rate of intake of new names remains high and the Group's continued commitment to investment in its solutions supports this;
- Retain existing customers through high levels of support and service offerings and, with an energetic approach to the cross-selling of the Group's widening range of solutions, an opportunity to create even broader and deeper customer relationships;
- Undertake selected M&A based activity with a focus on complementary customer bases, solutions and technology. The Group has completed the acquisition of Millstream during the financial year and Perfect shortly after the financial year end and, cumulatively, six acquisitions within the last four financial years. A very strong pipeline of further exciting opportunities exists but further progress on M&A must be balanced against delivery of the value opportunity resulting from the Millstream and Perfect acquisitions; and
- Open up a vast new opportunity by accessing and offering value added benefits and services to a new customer grouping, the customer supply chain. The Group is focussed on adopting the acquired networking technology and business models within Perfect to access this opportunity having made slower progress than it would have expected to with its own technology over the last twelve months.

Business performance and strategy

The Group's reported revenues increased by 31% to £25.4m (2016: £19.4m) with the Group's acquisitions, Due North in the prior year and Millstream in this year, contributing a combined total of £5.4m (2016: Due North alone contributing £1.0m for the six months that it was part of the Group in the prior year). Organic revenue growth was 9%. The Group's longer term growth performance remains strong with a three year cumulative average growth rate in revenue of 36%.

In the year, the Group's ACR grew 28% and is now £22.6m (2016: £17.6m) and total forward contracted order book, to be delivered principally over the next five years, grew by 7% and now stands at £28.0m (2016: £26.1m).

The Group secured 54 new names (2016: 63) of which 44 (2016: 46) were subscription deals. The aggregate initial contract value sold was £4.1m (2016: £6.8m) of which £1.2m (2016: £2.2m) was recognised during the year. Average deal value reduced through a mix shift toward lower priced modules within the solution portfolio. The Board is satisfied with the level of new names during the year and expects the mix of modules sold to return to a more normalised mix going forward.

The number of upsell deals sold to existing customers increased encouragingly to 110 (2016: 95).

Whilst the satisfactory volume and value of new business and upsells are good indicators of market traction, the renewal of customer contracts sold in prior years remains of vital importance to the Group's strategy. Therefore, it is very encouraging that the Group has generally maintained its very high levels of renewal.

The Group's financial progress continues apace reporting Adjusted EBITDA (Note: definition below) of £7.9m (2016: £5.3m), in line with expectations. As described last year, the Group has realised operational and synergistic cost reductions from its post-acquisition integration plans to deliver improved profitability margins with the Adjusted EBITDA (Note: definition in Chief Financial Officer's report) margin increasing to 31% (2016: 27%).

The Group has incurred significant non-recurring administrative expenses of £6.8m during the year relating primarily to the acquisitions of Millstream and Perfect. Of this, £1.8m relates to a non-cash loss on a conditional forward foreign exchange contract entered into to give security over the rate at which the Group could purchase US dollars to fund the acquisition of Perfect. This has resulted in the Group reporting a statutory operating loss of £2.6m (2016: profit £1.9m).

Blended perpetual and subscription software licence and services models

The Group continues to offer the blended model of perpetual and subscription software licences, delivered on its Cloud technology platform, as well as associated services. It has strong momentum in the marketplace. Its global business partners are achieving sales momentum of both licence types and the Group is seeing good traction in the United States.

Buyer solutions

The Group's position as a leading "best in class" spend control and eProcurement solution provider has been further enhanced by the addition of major new modules, many new features and the introduction of mobile applications for large buying organisations. The solution suite is regularly recognised within the sector for its capability.

Ongoing investment has enabled the Group to move ahead of the competition by offering a truly "end-to-end" suite of software. The Group is in a very strong competitive position and will continue to invest to maintain that position.

Supplier solutions

Through the acquisition of Millstream (and, latterly, Perfect), the Group has acquired substantial reach into the supplier community. The Tenders Direct service was acquired with Millstream and the substantial business networking capability, The Business Network ("TBN"), was acquired with Perfect. The Board is focussed on realising the value from the commercial and technical opportunities of these specific capabilities in the enlarged Group.

Markets

The Group offers a true multi-company, multi-currency and multi-language capability and this remains an essential differentiator as the Group increases its presence across more sectors worldwide. During 2017 deals were sold to customers operating across several continents and many different sectors.

The Group competes on various levels; local vendors, Enterprise Resource Planning ("ERP") vendors and international procurement vendors and this mix makes for an extremely competitive environment. The "end-to-end" message and tight integration techniques mitigate this and positions PROACTIS as a cost effective solution against both big ticket, consultancy led ERP vendors, international procurement vendors' solutions and potential multi-vendor software led solutions.

M&A strategy and activity

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

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

Within this framework, the Group has made five acquisitions between February 2014 and November 2016 and all are integrated as products or services within the Group's solution portfolio and have compatible technologies.

As described above, the acquisition of Perfect was transformational due to its size and was much more substantial than previous transactions. With integration firmly in mind, the Group looks forward to reporting on the year ahead as the synergies between the two companies continue to be realised, creating a solid foundation for growth.

The Group has a healthy pipeline of acquisition opportunities which is currently under review, however the Board is heavily focussed on realising the value opportunity resulting from the Millstream and Perfect acquisitions in the short-term.

Millstream

The Group acquired Millstream, a provider of pre-award eProcurement solutions predominantly to suppliers, on 16 November 2016. Details of the transaction are included within the Chief Financial Officer's report.

Its post-acquisition performance has been encouraging with £3.5m revenue and £1.7m Adjusted EBITDA (Note: definition in Chief Financial Officer's report) during the 36 week period since completion. Millstream operates a subscription based revenue model and this contributed approximately £4.9m of recurring ACR. Whilst Millstream has a higher rate of churn in the supplier side of its business, it also has a substantial level of buyer side business which has low levels of churn. The blended churn rate is in line with that experienced by the Group.

As described at the time of the acquisition, the corporate integration of Millstream was deferred for a period in order to minimise disruption in the immediate post acquisition period, enabling Millstream to deliver the challenging performance targets that the Group had planned for. This has been achieved and closer integration will now start to move forward. The Board considers that this pragmatic approach to integration is testament to the Group's ability to identify, execute and integrate strategic and accretive acquisitions that generate shareholder value.

Perfect
The Group acquired Perfect, a provider of eProcurement solutions, on 4 August 2017. Accordingly, Perfect has not contributed to the performance of the Group during the financial year except for the non-recurring administrative expenses associated with the transaction itself, the committed element of which has been recognised.

This acquisition has positioned PROACTIS to leverage Perfect's extensive international capabilities which sees it serve approximately 150 customers (largely Tier 1), with over 1.3 million users across more than 80 countries, 20 languages and 100 currencies. Previous to this, PROACTIS was pre-dominantly UK based, with a limited US presence, and its customers were Tier 2 businesses. However, now, the Board believes that the Group can become a leading provider of spend management solutions globally, from scaled operations in each of the main global markets of the United States, the United Kingdom and in mainland Europe.

This acquisition, which is expected to be earnings enhancing in first full financial year of ownership, has dramatically changed the Company's profile and has accelerated PROACTIS' strategy. Benefits include:

- An increased scale, geographic footprint, customer opportunity, and solution set
- Combined group delivering c.£55m of revenue, >85% recurring (based on historic financial information)
- Meaningful and multiple commercial and operational efficiencies
- Expected net annualised cost savings of approximately £5.0 million
- Significant cross-sell / up-sell opportunities; and
- Strengthened supplier commerce opportunity through The Business Network, its own proprietary supplier network which has approximately 970,000 suppliers connected to it. Those suppliers are able to use The Business Network to collaborate with and transact efficiently and electronically with their customers.

The enhanced solution set arising through the combination and the increased reach into the new territories to both Tier 1 and mid-market customer segments offers a solid platform to continue to execute the Group's growth strategy.

The supplier commerce opportunity
The Group has a strategic objective of accessing and providing value added services to a new customer group, being the suppliers of its 1,000 customers. The Group's focus is to create many mutual benefits that both the buyer and supplier can realise through the Group's networking technology, including:

- e-Procurement;
- Near paperless trading;
- Improvement of efficiencies in the administration of supplier records; and
- Transparency of the status of a purchase invoice in the approval and payment cycle,

with a view to, ultimately, providing accelerated payments to suppliers through an innovative application delivered over the networking technology. Additionally, this approach is expected to encourage electronic trading, which is currently poorly adopted, creating efficiencies within the buy/sell transaction process. These efficiencies will be realised by the suppliers through a greater level of convenience in the trading relationship with their customers and significantly reduced costs whilst also creating new commercial opportunities. These benefits and efficiencies will be charged through a non-tariff based, low cost software subscription.

The technology and commercial model acquired through the acquisition of Perfect is much more advanced than the Group's own equivalent technology and the Board believes that the realisation of the opportunity will be de-risked through the adoption of this technology and commercial model.

Summary and outlook

The activities during the year have culminated in the transformation of PROACTIS into a truly global leader in the multi-billion-dollar eProcurement solution market. The Group has continued to execute its strategy and has grown substantially with a satisfactory rate of organic growth across reported revenue, ACR and order book. Plus the period under review saw it deliver further inorganic growth, which demonstrates our ability to successfully integrate and expand our offering, through its acquisition of Millstream, which has performed encouragingly post completion.

Client retention remains high and the Group's solutions are being deployed more deeply and widely within the customer base through an impressive rate of upsell activity, which bodes well for the year ahead. This revenue is being delivered efficiently and profitability is very strong with high operating margins.

Over the coming year, the Group will continue to drive organic growth whilst realising the value opportunities provided by the acquisitions of Millstream and Perfect, which are substantial both in respect of geographic reach and an enhanced solution set. Initial progress on cost savings related to the integration of the Group with Perfect are encouraging and the Group is on track to meet its objective of delivering annualised savings of £5.0m by 31 July 2018 with more than £2.5m being delivered at the date of this report.

The Group's opportunity to access and deliver value added services to a new customer grouping, the suppliers of its 1,000 customers, has moved more slowly than expected but the acquired technology and commercial acumen of Perfect gives the Board confidence that this opportunity can be realised in the short-medium term. The scope for growth in this part of the group's business is extremely exciting.

The Board is very pleased with the Group's sustained level of growth and momentum and is confident that the Group in a strong position to continue and accelerate even further.

Alan Aubrey
Chairman

Tim Sykes
Chief Financial Officer

10 October 2017

Chief Financial Officer's Report

Results for the year and key performance indicators

Performance analysis

Execution of the Group's M&A strategy resulted in five completed acquisitions in the period from February 2014 to November 2016 and this has had a significant positive impact on the scale and growth rate of the Group's operations and financial performance. Three of the five have contributed to the Group's results for the whole of the current and previous financial year and are included within the 'Existing Group' in the table below. The fourth and the fifth acquisition, Due North and Millstream were acquired on 2 February 2016 and 16 November 2016 respectively and have contributed to the Group's result since those dates during the previous and this financial year. This performance can be analysed as follows:

	Revenue £000	[1]Organic growth %	[3]Adjusted EBITDA £000	[4]Adjusted EBITA £000
Existing Group	19,996	9%	5,506	3,207
Due North	1,872	(8%)	609	454
Millstream	3,536	-%	1,737	1,588
	25,404	[2]7%	7,852	5,249

Definitions:

Note 1: The Organic growth measure reported is calculated by reference to the revenue contributed for the year ended 31 July 2017 and the year ended 31 July 2016 (or six month period ended 31 July 2017 and 2016 in the case of Due North), unadjusted for currency fluctuations.

Note 2: Calculated as a weighted average.

Note 3: Adjusted EBITDA is statutory operating profit before depreciation, amortisation, share based payment charges and non-recurring administrative expenses (related principally to the Group's acquisition activities and consequent post-acquisition integration and re-organisation programmes). This measure is considered to be relevant because it allows industry comparison as an indicator of recurring cash profit before discretionary capital expenditure.

Note 4: Adjusted EBITA is statutory operating profit before amortisation of customer related intangible assets, share based payment charges and non-recurring administrative expenses (related principally to the Group's acquisition activities and consequent post-acquisition integration and re-organisation programmes).

Reported revenue

Revenue increased 31% to £25.4m from £19.4m last year. Organic revenue growth in the Existing Group was 9% (and 5% excluding the effect of foreign currency translation rates changes). Due North contributed £1.9m of revenue during the year (2016: £1.0m in the six month period since the date of completion in the prior period, 2 February 2016) and its organic growth was negative as a result of known customer losses at the date of acquisition. Millstream contributed £3.5m of revenue in the 36 week period since the date of completion, 16 November 2016.

The Group signed 54 new names (2016: 63) of which 44 (2016: 46) were under the subscription model. The aggregate initial contract value sold was £4.1m (2016: £6.8m) of which £1.2m (2016: £2.2m) was recognised during the year. Average deal value reduced through a mix shift toward lower priced modules within the solution portfolio. The Board is satisfied with the level of new names during the year and expects the mix of modules sold to return to a more normalised ratio going forward.

Revenue from recurring contracted subscriptions, managed service contracts, support and hosting was £22.1m (2016: £15.7m) including a contribution of £1.6m (2016: £0.8m in the six month period since completion) from Due North and including a contribution of £3.4m from Millstream in the 36 week period since completion. The organic growth of this revenue stream in the PROACTIS business was a healthy 15%.

Revenue from consultancy services reduced by £0.1m to £2.3m (2015: £2.4m) including a contribution of £0.2m (2016: £0.2m in the six month period since completion) from Due North and including a contribution of £0.1m in the 36 week period since completion from Millstream.

Revenue visibility

The total value of subscription, managed service, support and hosting revenue recognised in the year was £22.1m (2016: £15.7m). More importantly, at 31 July 2017, the ACR, being the run rate of subscription, managed service, support and hosting revenue, increased by 28% to £22.6m (2016: £17.6m) which equates to 89% (2016: 91%) of reported revenues.

At 31 July 2017, the total multi-year contracted order book that is to be recognised as revenue in future financial periods increased by 7% to £28.0m (2016: £26.1m).

Support and hosting revenue is generally renewed annually in advance, and the Group has had low cancellation rates in the past. Because of this, the Group includes these revenues within its ACR. Those revenues are, however, only "contracted" to the extent that each current annual contract remains unfulfilled.

Gross margin

The presentation of the Group's reported results does not include the sub-total of gross profit to better reflect the reality of the Group's operational performance. However, gross margin is a relevant measure of performance when considered as revenues less cost of goods and services.

The Group's business partners and its own direct sales effort sold contracts under both the subscription and perpetual business models. Four of the five acquired businesses, including Due North and Millstream, sell entirely directly to their clients rather than through business partners and, accordingly, the revenue from those businesses delivers comparatively high gross margins, as defined above. Consequently, gross margins have continued to improve through the mix shift toward direct selling. The combined effect of these factors was that the Group reported an improved gross margin (as defined above) over all of 86% (2016: 82%).

Overheads

Overhead (defined as the aggregate of staff costs, other operating expenses but excluding depreciation of property, plant and equipment, amortisation of intangibles assets, share based payment charges and non-recurring administrative expenses) increased during the year to £14.0m (2016: £10.7m). Due North contributed £1.2m (2016: £0.6m in the six month period since completion in the prior year) and Millstream contributed £1.8m in the 36 week period since completion. Excluding these factors, overhead increased by £0.9m of which £0.7m related to a less favourable average exchange rate compared to the prior year.

Accordingly, the Group's Adjusted EBITDA increased to £7.9m (2016: £5.3m) and the associated margin improved to 31% (2016: 27%). The equivalent Adjusted EBITA increased to £5.3m (2016: £3.2m) and the associated margin increased to 21% (2016: 17%).

The Group incurred significant non-recurring administrative expenses of £6.8m during the year relating primarily to the acquisitions of Millstream and Perfect which has resulted in the Group reporting a statutory operating loss of £2.6m (2016: profit £1.9m). Most of these expenses related to the acquisition of Perfect but are recognised in this financial year as they were committed.

Capitalised development costs and costs of software for own use were £2.8m (2016: £2.1m). The income statement includes a total charge for the amortisation of capitalised development costs and costs of software for own use of £2.4m (2016: £1.8m).

Acquisition of Millstream

The Group acquired Millstream on 16 November 2016 for net cash consideration of £14.3m. The gross cash consideration was £19.0m with Millstream having free cash or cash equivalents of £4.7m on its balance sheet at the date of acquisition.

The cash consideration for the acquisition was funded by the combination of a placing of new ordinary shares raising approximately £12.5 million and from a new (at the time) £15.2m debt facility provided by HSBC Bank plc ("HSBC"). This facility included a £4.2 million term loan, repayable over three years with a coupon rate of 1.95 per cent. over LIBOR, and an £11.0 million revolving credit facility, repayable after four years with a ratcheted coupon rate no lower than 1.75 per cent. over LIBOR and no higher than 2.5 per cent. over LIBOR (together the "Facilities"). The Facilities replaced the Company's three existing term loan facilities with HSBC, £3.35 million of which was drawn down in aggregate. The facility referred to in this paragraph, whilst in place at 31 July 2017, has now been replaced with a further new facility negotiated to support the acquisition of Perfect.

The annual revenue of the Millstream, for the year ended 30 June 2016 was £4.9m and EBITDA was £2.0m. The Group acquired net assets with a book value of £2.2m but, with adjustments of £3.8m to reflect the fair value of customer related intangible assets, the fair value of net assets acquired was approximately £6.0m and the Group recognised £13.0m of goodwill. The goodwill relates to the skilled labour force within Millstream. The value of the skilled labour force was not recognised as a separate intangible asset on the basis that it could not be separated from the value generated from the business as a whole. In addition, the goodwill relates to the future potential to realise cross-selling opportunities and operational cost synergies.

During the 36 week period since acquisition, Millstream has performed in line with expectations, contributing £3.5m revenue and £1.7m of EBITDA.

Acquisition of Perfect
The Group acquired Perfect on 4 August 2017 for consideration of $127.5m with an additional consideration of up to $5.0m depending on certain deliverables. The net consideration was $121.2m with Perfect having cash of $6.3m on its balance sheet at the date of acquisition.

The cash consideration for the acquisition was funded by the combination of a placing of new ordinary shares raising approximately £70.0 million, from debt of £28.0m to be drawn from a new £45m debt facility provided by HSBC Bank plc ("HSBC") and from and by the issue $5.0m of convertible loan notes to two members of continuing management. This new £45m debt facility includes a £15.0 million term loan, repayable over five years with a coupon rate of 1.95 per cent. over LIBOR, and a £30.0 million revolving credit facility, repayable after five years with a ratcheted coupon rate no lower than 1.75 per cent. over LIBOR and no higher than 2.5 per cent. over LIBOR (together the "Facilities").

The annual revenue of Perfect, for the year ended 31 December 2016 was approximately $39.7m and EBITDA was $6.4m. The Board considers that the run rate of EBITDA at acquisition was approximately $9.0m.

The Board will give further analysis of the acquisition of Perfect within its interim announcement for the six months ending 31 January 2018.

Cash flow
The Group remains in a strong financial position with cash balances of £4.3m at 31 July 2017 (2016: £3.6m). Gross debt at 31 July 2017 was £5.2m of which £1.4m was payable within one year. This position has now changed substantially following the acquisition of Perfect.

The Group generated cash from operating activities of £4.7m (2016: £5.2m) which is higher than the reported operating loss of the Group of £2.6m (2016: profit £1.9m), mainly due to the effect of non-recurring administrative expenses related to the acquisition of Perfect (that were unpaid at the year end) and also due to the amortisation of intangible assets. The Group invested £2.8m (2016: £2.5m) in capital related expenditure (including internal development costs and costs of software for own use) and £14.3m (net, and before costs) on the acquisition of Millstream (2016: £4.4m on the acquisition of Due North) which was supported by a further term loan from HSBC Bank plc of £4.2 million.

The Group had a cash outflow of £3.1m (2016: £0.9m) from the servicing of its debt finance and paid a cash dividend of £0.6m (2016: £0.5m) to its equity investors.

Taxation
The Group has, reported a small net charge in its income statement of £0.2m (2016: net credit £0.7m).

The Group has recognised certain deferred tax assets related to tax losses in its operations that were not previously recognised of £0.5m (2016: £0.3m). This deferred tax credit has largely offset the current year corporation tax charge.
The Group benefitted in the prior year from a change in the tax base in the Group's foreign operations. Profit earned during the current year in those foreign operations has utilised tax losses for which a deferred tax asset had been recognised and, accordingly, a normalised charge has been recognised during the current year.

Earnings per share
There have been a number of non-recurring administrative expenses and other non-cash expenses related principally to the Group's acquisition related activities. The Group presents an adjusted earnings per share measure, as described in note 10, to take account of these factors and reports 9.0p per share (2016: 7.2p per share). Basic loss per share was 5.9p (2016: earnings per share 6.3p).

Dividend policy
Subject to approval at the General Meeting of Shareholders to be held on 18 December 2017 and subject to the Company having sufficient distributable reserves at the time, a final dividend of 1.4p (2016: 1.3p) per Ordinary share is proposed and will be paid on 22 January 2018 to shareholders on the register at 29 December 2017. The Board considers, based on its budgets and forecasts, that the level of distributable reserves at the proposed date of payment of the proposed dividend will be adequate. The corresponding ex-dividend date is 28 December 2017.

Treasury
The Group continues to manage the cash position in a manner designed to maximise interest income, while at the same time minimising any risk to these funds. Surplus cash funds are deposited with commercial banks that meet credit criteria approved by the Board, for periods between one and twelve months.

Key risks
Although the directors seek to minimise the impact of risk factors, the Group is subject to a number of risks which are as follows:

- *Loss of key personnel*: Loss of key management could have adverse consequences for the Group. While the Group has entered into service agreements with each of its executive directors, the retention of their services or those of other key personnel cannot be guaranteed.

- *Competition*: Competitors may be able to develop products and services that are more attractive to customers than the Group's products and services. In order to be successful in the future, the Group will need to continue to finance research and development activities and continue to respond promptly and effectively to the challenges of technological change in the software industry and competitors' innovations. An inability to devote sufficient resources to product development activities in order to achieve this may lead to a material adverse effect on the Group's business. The Group continues to invest substantially in the development of its technology and other solutions to enable it to meet the challenge of fast changing market demand and ever increasing levels of technological advancement and is being successful through the rate of sale of new names and number of upsell transactions with existing customers.
- *Acquisitions*: The Group has stated that it will acquire suitable companies which fit certain criteria, and recognises that there is a risk of operational disturbance in course of integrating acquired companies into the Group's existing operations. The Group mitigates this risk by way of due diligence and detailed planning. Acquisitions may also be made where the desired synergy benefits may fail to materialise, may take longer than anticipated or may be lower than have been or where the targets results or cash flows may not match the Group's expectations.
- *International operations*: The Group may be subject to a variety of risks and challenges in managing an organisation operating in various countries, including those related to:
    - challenges caused by distance, language and cultural differences;
    - human resource processes and procedures;
    - general economic conditions in each country or region
    - fluctuations in currency exchange rates
    - frequent regulatory changes in legal systems
    - political unrest, terrorism and the potential for other hostilities
    - overlapping tax regimes
    - the Group's ability to repatriate funds held by its international subsidiaries at favourable tax rates or at all; and
    - difficulties in transferring funds to or from certain countries.

  If the Board and the Proposed Director are unable to manage the foregoing international aspects of the Group's business and ensure that global processes are sufficiently well developed and robust, its operating results and overall business will be significantly and adversely affected.
- *Integration risk*: The integration of Perfect will require significant time and effort on the part of the Group's management. If such integration difficulties are significant, this could adversely affect the business, financial condition, results of operations or prospects of the Group. The process of integrating operations could, amongst other things, divert management's attention away from the activities of one or more of the existing operations, as well as interrupt business momentum, and could result in a loss of key personnel. Although regulatory and operational decision making will often be undertaken by each of the businesses locally, coordinating its decision making across all of the businesses in the Group will present challenges within the Group's management team. There is a risk that the challenges associated with managing the Group will distract or overstretch the management team or that the integration of the underlying businesses is delayed or takes materially longer than management anticipate and that consequently the underlying businesses will not perform in line with management or Shareholder expectations. In addition, certain members of the senior management team of Perfect will be joining the Group on Completion. These employees are largely unproven in the UK Public markets arena and there is no guarantee that they will replicate their previous successes with the Enlarged Group
- *Synergy benefit realisation*: The value of an investment in the Group is dependent on the Group achieving its strategic aims. The Group is targeting significant synergies from the Acquisition and the Group's financial planning and funding strategies are based in part on realising the synergies. There is a risk that synergy benefits from the Acquisition may fail to materialise, may take longer than anticipated or may be lower than have been estimated. Sales staff may not be able to achieve the cross-selling and upselling opportunities that the Board and the Proposed Director have identified. In addition, the cost of funding these synergies may exceed expectations and such eventualities may have a material adverse effect on the financial position of the Group. As a result of taking some of the action required to achieve the desired synergies, some employees of the Group may choose to leave the Group. There is no guarantee that these employees will be able to be replaced with sufficiently experienced and skilful staff.
- *Privacy or data protection failures*: The Group's operations are subject to a number of laws relating to privacy and data protection, including the UK's Data Protection Act 1988 and the US-EU Privacy Shield Framework as well as other relevant data protection and privacy laws and regulations. Such laws and regulations govern the Group's ability to collect and use personal information. These data protection and privacy-related laws and regulations are becoming increasingly restrictive and complex and may result in greater regulatory oversight and increased levels of enforcement and sanctions. For example, the European Union's General Data Protection Regulation will come into force on 25 May 2018 and will be a major reform of the EU legal framework on the protection of personal data. This increasingly restrictive and complex legal

framework has resulted in a greater compliance burden for businesses with customers in Europe, such as the Group's, and could further increase compliance costs for the Group going forward. In addition, evolving and changing definitions of personal data and personal information within the European Union, the United States, and elsewhere, especially relating to classification of Internet Protocol ("IP") addresses, machine identification, location data, and other information, may limit or inhibit the Group's ability to operate or expand its business, including limiting strategic partnerships that may involve the sharing of data. Even the perception of privacy concerns, whether or not valid, may harm the Group's reputation and inhibit adoption of the Group's products by current and future end customers.

The Group will rely on third party contractors and its own employees to collect personal data and to maintain its databases and therefore the Group is exposed to the risk that such data could be wrongfully appropriated, lost or disclosed, damaged or processed in breach of data protection requirements.

If the Group is found not to comply with the data protection laws and regulations, this may result in investigative or enforcement action (including criminal proceedings and significant pecuniary penalties) by the Information Commissioner's Office in the UK or similar regulatory authorities in other jurisdictions in which the Group operates. This in turn could damage its reputation, lead to negative publicity and result in the loss of the goodwill of its existing customers and deter new customers, all of which would have a material adverse effect on the Group's business, results of operations and financial condition.

– *Government policy*: There may be changes in future government policy in relation to eProcurement which may have a material adverse effect on the Group's business, such as Brexit, eGov, gCloud and legislation conflicts between the various jurisdictions that the Group will operate in following Completion..

Tim Sykes
Chief Financial Officer
10 October 2017

Consolidated Statement of Comprehensive Income for the year ended 31 July 2017

	Notes	2017 £000	2016 £000
Revenue		**25,404**	19,374
Cost of sales		**(3,545)**	(3,401)
Staff costs		**(10,960)**	(8,877)
Other operating expenses		**(9,969)**	(2,495)
Depreciation of property, plant and equipment		**(216)**	(224)
Amortisation of intangible assets		**(3,322)**	(2,495)
Operating profit before non-recurring administrative expenses, amortisation of customer related intangibles and share based payment charges		**5,249**	3,227
Non-recurring administrative expenses		**(6,796)**	(579)
Amortisation of customer related intangible assets		**(936)**	(648)
Share based payment charges	3	**(125)**	(118)
Operating (loss)/profit		**(2,608)**	1,882
Finance income		**2**	6
Finance expenses		**(142)**	(87)
(Loss)/profit before taxation		**(2,748)**	1,801
Income tax(charge)/credit	4	**(23)**	684
(Loss)/profit for the year		**(2,771)**	2,485
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Share based payment charges		**125**	118
Deferred tax on share options		**240**	-
Items that are or may be reclassified to profit or loss			
Foreign operations – foreign currency translation differences		**(91)**	(792)
Other comprehensive gain/(loss) net of tax		**274**	(674)
Total comprehensive (loss)/income		**(2,497)**	1,811
(Loss)/earnings per ordinary share:			
- Basic	5	**(5.9p)**	6.3p
- Diluted	5	**(5.7p)**	5.9p

All of the Group's operations are continuing.

Consolidated Balance Sheet as at 31 July 2017

	2017 £000	Represented* 2016 £000
Non-current assets		
Property, plant & equipment	**381**	391
Intangible assets	**38,628**	21,613
Deferred tax asset	**500**	500
	39,509	22,504
Current assets		
Trade and other receivables	**5,880**	5,276
Cash and cash equivalents	**4,277**	3,595
	10,157	8,871
Total assets	**49,666**	31,375
Current liabilities		
Trade and other payables	**8,104**	2,769
Obligations under finance leases	**14**	-
Deferred income	**10,880**	9,008
Income taxes	**555**	270
Borrowings	**1,400**	1,393
	20,953	13,440
Non-current liabilities		
Deferred income	**577**	488
Deferred tax liabilities	**1,778**	1,819
Borrowings	**3,760**	2,656
Obligations under finance leases	**54**	-
	6,169	4,963
Total liabilities	**27,122**	18,403
Net assets	**22,544**	12,972
Equity attributable to equity holders of the Company		
Called up share capital	**5,024**	3,983
Share premium account	**17,631**	5,962
Merger reserve	**556**	556
Capital reserve	**449**	449
Foreign exchange reserve	**(1,164)**	(1,073)
Retained earnings	**48**	3,095
Total equity	**22,544**	12,972

*The prepayments and deferred income balances have been represented in respect of deferred income which was previously shown net of related prepaid expenses.

Consolidated Statement of Changes in Equity

	Share capital £000	Share premium £000	Merger reserve £000	Capital reserve £000	Foreign exchange reserve £000	Retained earnings £000	Total £000
At 31 July 2015	3,941	5,840	556	449	(281)	967	11,472
Shares issued during the period	42	122	-	-	-	-	164
Dividend payment of 1.2p per share	-	-	-	-	-	(475)	(475)
Arising during the period	-	-	-	-	(792)	-	(792)
Result for the period	-	-	-	-	-	2,485	2,485
Share based payment charges	-	-	-	-	-	118	118
At 31 July 2016	3,983	5,962	556	449	(1,073)	3,095	12,972
Shares issued during the period	1,041	11,669	-	-	-	(3)	12,707
Dividend payment of 1.3p per share	-	-	-	-	-	(638)	(638)
Arising during the period	-	-	-	-	(91)	-	(91)
Result for the period	-	-	-	-	-	(2,771)	(2,771)
Share based payment charges	-	-	-	-	-	125	125
Deferred tax on share options						240	240
At 31 July 2017	**5,024**	**17,631**	**556**	**449**	**(1,164)**	**48**	**22,544**

Consolidated Cash Flow Statement for the year ended 31 July 2017

	Notes	2017 £000	2016 £000
Operating activities			
(Loss)/profit for the year		**(2,771)**	2,485
Amortisation of intangible assets		**3,322**	2,497
Depreciation		**216**	224
Net finance expense		**140**	81
Forward contract provision		**1,832**	-
Income tax (charge)/credit		**23**	(684)
Share based payment charges		**125**	118
Operating cash flow before changes in working capital		**2,887**	4,719
Movement in trade and other receivables		**148**	(530)
Movement in trade and other payables and deferred income		**2,513**	1,229
Operating cash flow from operations		**5,548**	5,416
Finance income		**2**	6
Finance expense		**(142)**	(87)
Income tax (paid)/received		**(743)**	(145)
Net cash flow from operating activities		**4,665**	5,190
Investing activities			
Purchase of plant and equipment		**82**	(169)
Purchase of intangible assets		**-**	(304)
Payments to acquire subsidiary undertakings	6	**(14,327)**	(4,370)
Development expenditure capitalised		**(2,765)**	(2,075)
Net cash flow from investing activities		**(17,174)**	(6,918)
Financing activities			
Payment of dividend		**(638)**	(475)
Proceeds from issue of shares		**12,707**	164
Receipts from bank borrowings		**4,200**	3,000
Repayment of bank borrowings		**(3,089)**	(864)
Finance lease payments		**(1)**	-
Net cash flow from financing activities		**13,179**	1,825
Effect of exchange rate movements on cash and cash equivalents		**12**	72
Net increase in cash and cash equivalents		**670**	99
Cash and cash equivalents at the beginning of the year		**3,595**	3,424
Cash and cash equivalents at the end of the year		**4,277**	3,595

Notes

1. These preliminary results have been prepared on the basis of the accounting policies which are to be set out in PROACTIS Holdings PLC's annual report and financial statements for the year ended 31 July 2017.

   The consolidated financial statements of the Group for the year ended 31 July 2017 were prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted for use in the EU ("adopted IFRSs") and applicable law.

   The financial information set out above does not constitute the company's statutory financial statements for the years ended 31 July 2017 or 2016 but is derived from those financial statements. Statutory financial statements for 2016 have been delivered to the Registrar of Companies and distributed to shareholders, and those for 2017 will be distributed to shareholders on or before 26 November 2017. The auditors have reported on those financial statements and their reports were:

   (i) unqualified;

   (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report; and

   (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006 in respect of the financial statements for 2016 or 2017.

2. Basis of preparation

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

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

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

3. Non-recurring administrative expenses

	2017	2016
	£000	£000
Costs to closure of the Group's re-organisation programmes	**-**	65
Costs of restructuring the Group's operations	**673**	354
Expenses of acquisition related activities	**6,123**	160
	6,796	579

   The Group acquired Millstream Associates Limited on 16 November 2016 and Perfect Commerce LLC on 4 August 2017. The expenses of acquisition related activities include the actual and estimated costs of professional services required to undertake those acquisitions, including £1,832,000 in respect of the marking to market of a conditional forward contract for the purchase of $125,000,000 US Dollars in respect of the acquisition of Perfect Commerce LLC which was entered into before the year end but which matured and was utilised after the year end. The costs of restructuring the Group's operations in the current and in the prior year relate primarily to the restructuring of the Group's management team and the centralising of the UK operations.

   These non-recurring administrative costs are largely disallowable for corporation tax purposes. It is estimated that the income tax on these expenses is £220,000.

4. Taxation

Recognised in the income statement

	2017	2016
	£000	£000
Current tax		
Current year	**442**	230
Adjustment in respect of prior periods	**160**	(83)
Total current tax	**602**	147
Deferred tax		
Released during the current year	**(191)**	(230)
Recognised in current year	**(388)**	(601)
Total deferred tax	**(579)**	(831)
Total tax in income statement	**23**	(684)

5. Basic and diluted loss per ordinary share

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

	2017	2016
Earnings (£000)	**(2,771)**	2,485
Effect of non-recurring administrative expenses	**6,573**	507
Effect on customer related intangible assets	**777**	508
Effect of share based payment charges	**125**	118
Non-recurring tax factors	**(493)**	(751)
Adjusted Earnings (£000)	**4,211**	2,867
Weighted average number of shares (number '000)	**46,944**	39,746
Dilutive effect of share options (number '000)	**1,827**	2,440
Fully diluted number of shares (number '000)	**48,771**	42,186
Basic (loss)/earnings per ordinary share (pence)	**(5.9p)**	6.3p
Adjusted earnings per ordinary share (pence)	**9.0p**	7.2p
Basic diluted (loss)/earnings per ordinary share (pence)	**(5.7p)**	5.9p
Adjusted diluted earnings per ordinary share (pence)	**8.6p**	6.8p

6. Acquisition

On 16 November 2016, the Group acquired the entire issued ordinary share capital of Millstream Associates Limited. The provisional fair values of assets and liabilities acquired are set out below.

	Fair value
	£000
Property, plant and equipment	55
Customer related intangible assets	4,154
Capitalised development costs	400
Trade and other receivables (net of impairment of £45,000)	809
Investment property sold at completion	2,400
Cash	2,321
Trade and other payables	(3,327)
Deferred tax	(782)

Net assets acquired	6,030
Goodwill	13,018

	19,048

Purchase consideration	
Cash	19,048
Cash acquired	(2,321)
Cash received from sale of investment property	(2,400)

Net cash outflow on acquisition	14,327

The revenue of Millstream Limited for the period from the date of acquisition to 31 July 2017 was £3,536,000 and the profit before tax for that period was approximately £1,590,000. This does not factor in the amortisation of intangible assets that will now be recognised in the Group accounts.