NOTES TO THE ACCOUNTS

1. Corporate Information

GB Group plc ('the Company') and its subsidiaries (together 'the Group') provide identity data intelligence products and services helping organisations recognise and verify all elements of an individual's identity at key interactions in their business processes. The nature of the Group's operations and its principal activities are set out in the Business Model.

The Company is a public company limited by shares incorporated in the United Kingdom and is listed on the London Stock Exchange with its ordinary shares traded on the Alternative Investment Market. The company registration number is 2415211. The address of its registered office is The Foundation, Herons Way, Chester Business Park, Chester, CH4 9GB. A list of the investments in subsidiaries, including the name, country of incorporation, registered office address and proportion of ownership interest is given in note 18.

These consolidated financial statements have been approved for issue by the Board of Directors on 30 June 2020.

The Company's financial statements are included in the consolidated financial statements of GB Group plc. As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company is not presented.

2. Accounting Policies

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS's) as adopted by the European Union and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention, modified in respect of the revaluation of financial assets and liabilities at fair value. A summary of the significant accounting policies is set out below.

The accounting policies that follow set out those policies that apply in preparing the financial statements for the year ended 31 March 2020 and the Group and Company have applied the same policies throughout the year.

2.2 Going Concern

The assessment of going concern relies heavily on the ability to forecast future cashflows over the going concern assessment period which covered through to 30 September 2021. Although GBG has a robust budgeting and forecasting process, the current economic uncertainty caused by the Covid-19 pandemic means that additional sensitivities and analysis have been applied to test the going concern assumption under a range of downside and stress test scenarios. The following steps have been undertaken to allow the Directors to conclude on the appropriateness of the going concern assumption:

a) Understand what could cause GBG not to be a going concern
b) Consider the current customer and sector position, liquidity status and availability of additional funding if required
c) Board review and challenge the base case forecast produced by management including comparison against external data sources available and potential downside scenarios
d) Perform reverse stress tests to assess under what circumstances going concern would become a risk – and assess the likelihood of whether they could occur
e) Examine what mitigating actions would be taken in the event of these stress test scenarios
f) Conclude upon the going concern assumption

a) Understand what could cause GBG not to be a going concern

The potential scenarios which could lead to GBG not being a going concern are considered to be:

- Not having sufficient cash to meet our liabilities as they fall due and therefore not being able to provide services to our customers, pay our employees or meet financing obligations.
- A non-remedied breach of the financial covenants within the Group Revolving Credit Facility (RCF) agreement (detailed in note 22). Under the terms of the agreement this would lead to the outstanding balance becoming due for immediate repayment. These covenants are:
  - Leverage – consolidated net borrowings (outstanding loans less current cash balance) as a multiple of adjusted consolidated EBITDA for the last 12 months, assessed quarterly in arrears, must not exceed 3.00:1.00
  - Interest cover - adjusted consolidated EBITDA as a multiple of consolidated net finance charges, for the last 12 months , assessed quarterly in arrears, must not fall below 4.00:1.00

b) Consider the current customer and sector position, liquidity status and availability of additional funding if required

In assessing the impact of Covid-19 it is important to consider the rate of growth prior to the pandemic so that the percentage impact can be put in context. Organic growth at constant currency in the current year to 31 March 2020 was 10.7%, and was 11.5% in the year to 31 March 2019. Analyst consensus prior to Covid-19 showed expected organic growth in the year to 31 March 2021 of 10.9%.

GBG does not have a high customer concentration risk with no individual customer generating more than 2% of Group revenue. The Group's customers operate in a range of different sectors which reduces the risk of a downturn in any particular sector. The financial services sector accounts for the largest percentage of customers, particularly within the Fraud and Identity segments, and there has not been a downturn in demand for these services since the pandemic began.

GBG does have exposure to customers in sectors that have had a more direct impact from Covid-19 such as Travel & Leisure, Employment Agencies & Training and Sporting Activities. However these sectors in total account for less than 6% of Group revenue and as noted above there are no single customers across the Group that are a material credit risk on their own.

As a global company GBG operates in different countries and therefore is less exposed if particular countries recover from Covid-19 at different rates or suffer second waves of the pandemic. The breakdown of our revenue by country is shown in note 4.

There are also macro dynamics supporting the increased use of GBG products and services, both in general and within the context of the Covid-19 pandemic, such as:

2. Accounting Policies CONTINUED

- continued compliance requirements globally
- the ongoing existence of fraud globally, with Covid-19 giving fraudsters new opportunities, leading to increased cyber security risks and therefore demand for GBG anti-fraud solutions
- continued digitisation and rise of online versus physical transactions in both consumer and business to business settings;
- speed and quality of customer onboarding being a key differentiator, which is enhanced through the use of GBG's software

GBG is not reliant upon any one supplier to provide critical services either to support the services we provide to our customers or to our internal infrastructure. For these critical services, such as the provision of data, contingency plans exist in the event of supplier failure to be able to move to an alternative supplier with minimal disruption to customers or the wider business.

	31 March 2020 £'000	31 March 2019 £'000	Variance £'000
Operating cashflow before tax and exceptional items (note 37)	**49,279**	31,582	17,697
Adjusted EBITDA (note 37)	**51,739**	34,080	17,659
Cash conversion %	**95.2%**	92.7%	2.5%
Cash	**27,499**	21,189	6,310
Loans (excluding unamortised loan fees)	**(62,500)**	(87,441)	24,941
Net Debt	**(35,001)**	(66,252)	31,251
Leverage	**0.68**	1.94	1.26

At 31 March 2020 the net debt position of the Group was £35.0 million, a decrease of £31.3 million since 31 March 2019. On 26 May 2020 the Company repaid £10.0m of the outstanding revolving credit facility liability. At 31 May 2020 the net debt position had improved to £20.5m.

During the year to 31 March 2020 GBG remained highly cash generative with an EBITDA to operating cash ratio of 95.2%.

The RCF has a maximum level of £110 million and therefore there is committed available headroom of £47.5 million which could be drawn down for working capital purposes if required. There are no mandatory debt repayments on the RCF required to be made until February 2022 when the agreement expires and the full outstanding balance is due.

c) Board review and challenge the base case forecast produced by management including comparison against external data sources available and potential downside scenarios

Uncertainty around the scale, timing and impact of Covid-19 means it is impossible to give meaningful guidance for profits in the year ahead. Management have used the internal and external information available in addition to their industry knowledge to produce the base case forecast. This base case forecast focuses on the impact of a potential decline in revenue against the year to 31 March 2020, as this is the component of the income statement that management has the least control over. The decline in revenue would result in a decrease in cost of sales and therefore in order to keep generating cash the remaining gross margin needs to be sufficient to cover the overhead base.

Management notes that analyst forecasts published after the Covid-19 outbreak estimate a decline in GBG revenue of between 7.6% and 12.8% in the year to 31 March 2021 compared to the prior year, with the consensus position being a decline of 10.3% which would be £175 million on a constant currency basis. While this is what we assumed, this is not a forecast, just an assumption for going concern.

The overhead base is the component of the income statement management has most control over with the majority of being people related costs. The base case forecast takes account of the cash preservation measures already taken which include cancellation of the dividend, recruitment frozen for all but essential hires, group-wide pay freeze, deferral of Executive Director bonuses for the year to 31 March 2020 and savings in travel. These measures will save cash of approximately £22m in the year to 31 March 2021, with £15m of these being operating cost savings (all excluding the dividend). No further reductions in operating expenditure are factored into this base case forecast.

Although a number of external economic forecasts suggest a return to overall GDP growth by Spring 2021 across each of the key territories GBG operates in, for prudence it has been assumed that the revenue position in the base case forecast at 31 March 2021 will remain throughout the year to 31 March 2022 (i.e. that year will see flat revenue). This provides robustness in the forecast in the event of a significant second wave of the pandemic.

This base case forecast showed continued significant headroom in the covenant compliance tests and sufficient liquidity to maintain operations. The base case forecast model was then adjusted to reflect a range of possible downside scenarios across different sectors and geographies, and under each of these the covenant compliance and liquidity position did not result in any risk to going concern.

Relative to the base case forecast produced by management there have not been any adverse variances in the overall trading performance since the year-end.

d) Perform reverse stress tests to assess under what circumstances going concern would become a risk – and assess the likelihood of whether they could occur

The base case forecast model was then further adjusted to establish at what point a covenant breach would occur without further mitigating actions. A covenant breach would occur before the available cash resources of the Group are fully exhausted and therefore the focus of the reverse stress test was on covenant compliance. In making this assessment it was assumed that management had reduced operating expenses by 20% which is the level that is considered possible without causing significant disruption to business operations. These savings would primarily be linked to people costs, net of any related redundancy costs.

With a 20% operating expenses saving introduced in Q3 of FY21 it would take a revenue decline of 42% for a covenant breach to occur (33% without any operating expenses savings). This breach would be as at 30 June 2021 although even at this point it would only take a net debt improvement of £400,000 or EBITDA increase of £130,000 to remedy this breach. With the assumption of revenue being flat during the year to 31 March 2022 the breach would be remedied by 30 September 2021.

Based on the current trading performance and through reference to external market data a decline of anywhere near 42% is considered by the Directors to be highly unlikely. If this became even a remote possibility then deeper cost cutting measures would be implemented well in advance of a covenant breach as well as consideration of a range of other mitigation actions detailed in the next section.

2. Accounting Policies CONTINUED

e) Look at what mitigating actions could be taken in the event of these reverse stress test scenarios

In the very unlikely event of the reverse stress test case scenario above a breach of covenants would occur on 30 June 2021 unless further mitigation steps were taken. Detailed below are the principal steps that would be taken (prior to the breach taking place) to avoid such a breach occurring:

- Make deeper cuts to overheads, primarily within the sales function if the market opportunities had declined to this extent. It would only take a reduction of 0.1% of overheads (based on the 31 March 2020 level) to increase EBITDA to remedy a covenant breach of £130,000.
- Request a delay to UK Corporation Tax, Employment Tax or Sales Tax payments under the HMRC 'Time to Pay' scheme. This would be in addition to the deferral of VAT payments announced by the UK Government on 20 March 2020. This announcement has meant that VAT which would have been due by the Group between 20 March 2020 and 30 June 2020 is not due until 31 March 2021. In the year to 31 March 2020 Corporation Tax payments averaged £900,000 per quarter, Employment Tax payments (including employee taxes) were approximately £1.2 million per month and Sales Tax payments were £2.5 million per quarter.
- Draw down on the £30 million Accordion facility within the Group's banking agreement. This facility is subject to credit approval from the syndicate banks.
- Request a covenant waiver or covenant reset from our bank syndicate. Even under this stress test scenario the forecast is that the Group would only be in breach for one quarter (quarter ending 30 June 2021) before returning to covenant compliance the following quarter. The business would still be EBITDA positive at this point and the directors have a reasonable expectation of achieving a temporary covenant waiver from the banks if needed.
- Raise cash through an equity placing. Under its Articles of Association GBG has the right to raise cash through an equity placing up to 10% of its market valuation at the date of the placing. Even factoring in a discount being applied to the share price, on the basis that the level of extra cash needed to remedy a breach at 30 June 2021 would be £400,000, the Directors are confident that funding well in excess of this level could be raised.
- Disposal of part of the business.

f) Conclude upon the going concern assumption

Following consideration of the base case forecast and reverse stress test scenario, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the consolidated financial statements.

2.3 Prior Year Measurement Period Adjustment

Under IFRS 3 Business Combinations there is a measurement period of no longer than twelve months in which to finalise the valuation of the acquired assets and liabilities. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

In the year to 31 March 2019 GBG completed two acquisitions, the measurement periods for which ended during the year to 31 March 2020.

No further adjustments were identified to the provisional fair values in respect of the acquisition of VIX Verify Pty Limited.

In respect of the acquisition of IDology Inc. adjustments to the provisional fair values were made during the measurement period, as set out in note 35.

The impact of the measurement period adjustments have been applied retrospectively, meaning that the results and financial position for the year to 31 March 2019 have been restated as follows:

Impact on the statement of financial position of the Group as at 1 April 2019:

	As previously reported £'000	Impact of measurement period adjustments £'000	Including measurement period adjustments £'000
Assets			
Property, plant and equipment	4,815	–	**4,815**
Intangible assets	420,137	5,509	**425,646**
Investments	411	(411)	**–**
Deferred tax assets	8,222	–	**8,222**
Current assets	76,404	118	**76,522**
Total assets	**509,989**	**5,216**	**515,205**
Equity			
Share capital and share premium	265,970	–	**265,970**
Other reserves	6,578	–	**6,578**
Foreign currency translation reserve	(2,811)	8	**(2,803)**
Retained earnings	51,723	–	**51,723**
Total equity	321,460	8	**321,468**
Liabilities			
Interest-bearing loans and borrowings	86,888	–	**86,888**
Trade payables and other liabilities	70,145	–	**70,145**
Contingent consideration	79	5,208	**5,287**
Provisions	528	–	**528**
Current tax	1,341	–	**1,341**
Deferred tax	29,548	–	**29,548**
Total liabilities	**188,529**	**5,208**	**193,737**