# Annual Report & Accounts 2020

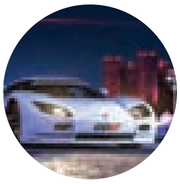
We are one of the UK's largest providers of end-to-end creative development and co-development services to the video games and entertainment industries.

We make highly innovative games for the most prestigious publishers in the world, with an increasing number of titles based on original concepts developed by Sumo.

# Highlights

## Our vision

Achieving wonder together.

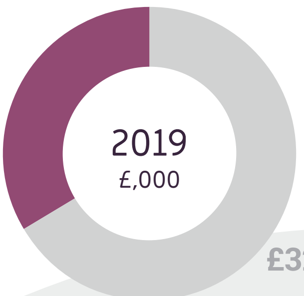


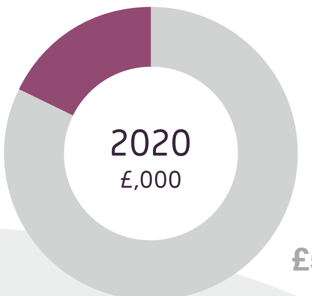
## Our mission

Grow a sustainable business, providing security to our people and shareholders, whilst delivering a first-class experience to our partners and players.

## Revenue Streams

We distinguish between revenue generated from work on Client-IP and that generated through work on Own-IP.




Total Own IP Total Client IP

Revenue
**£68.9m** 2019: £49.0m
**+40.7%**

Gross profit
**£31.5m** 2019: £23.9m
**+31.5%**

Adjusted EBITDA[1]
**£16.5m** 2019: £14.1m
**+17.1%**

Gross margin
**45.7%** 2019: 48.9%

Adjusted gross margin[2]
**41.8%** 2019: 44.8%

Net cash
**£6.8m** 2019: £12.9m

Contracted or near contracted[3] revenue

| **85%** | **50%** |
|---|---|
| Sumo Digital | Pipeworks |

1 Adjusted EBITDA is a non-GAAP metric used by management and is not an IFRS disclosure. It is defined as statutory operating profit adding back amortisation, depreciation, share-based payment charge, investment in co-funded games expensed, exceptional items, the fair value loss on contingent consideration less the operating lease costs capitalised under IFRS 16 and foreign currency derivative contracts.

2 Adjusted gross margin is a non-GAAP metric used by management and is not an IFRS disclosure. It is stated after adding back to gross profit the investment in co-funded games expensed and, for Sumo Digital, adding to revenue amounts in respect of Video Games Tax Relief ("VGTR") and with no adjustment to either revenue or gross profit in respect of royalty income. It should be noted the definition of adjusted gross margin has changed this year following the acquisition of Pipeworks.

3 Revenue is referred to as near contracted when management has a high degree of confidence in a project's size, scope and timing. Typically, this would be when the key commercial terms have been agreed in principle and reflected in a draft contract which has undergone a legal review and does not contain any terms that are unacceptable to the Company.

# At a glance

BAFTA WINNER GAMES

Two BAFTAs won for **Sackboy, A Big Adventure**, best British game and best family game, in March 2021

## Rapid growth continued in 2020

It's been an incredibly busy year for the Group, with 12 games announced or launched in the year, including five Own-IP titles: Spyder, Little Orpheus, WST Snooker, Hood and Pass the Punch, which is an incredible achievement during a global pandemic.

## Our Clients and Partners

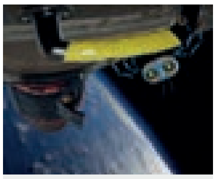
We have developed deep relationships with some of the world's largest computer games publishers, developers, platform manufacturers and entertainment brands including:

## 2020 in review

**766** Headcount

**10** Studios

**3** Countries



**Jan**

Jenny Muhlwa appointed to Sumo Group as Learning and Development Manager

Dr Jake Habgood appointed to Sumo Group as Director of Education Partnerships

**Feb**

Sumo Warrington moves into new Studio

**Mar**

Successful transition to work from home

Co-founder Darren Mills becomes Director of Excellence and Integration, Sumo Group

**Apr**

**May**

Acquisition of Lab42

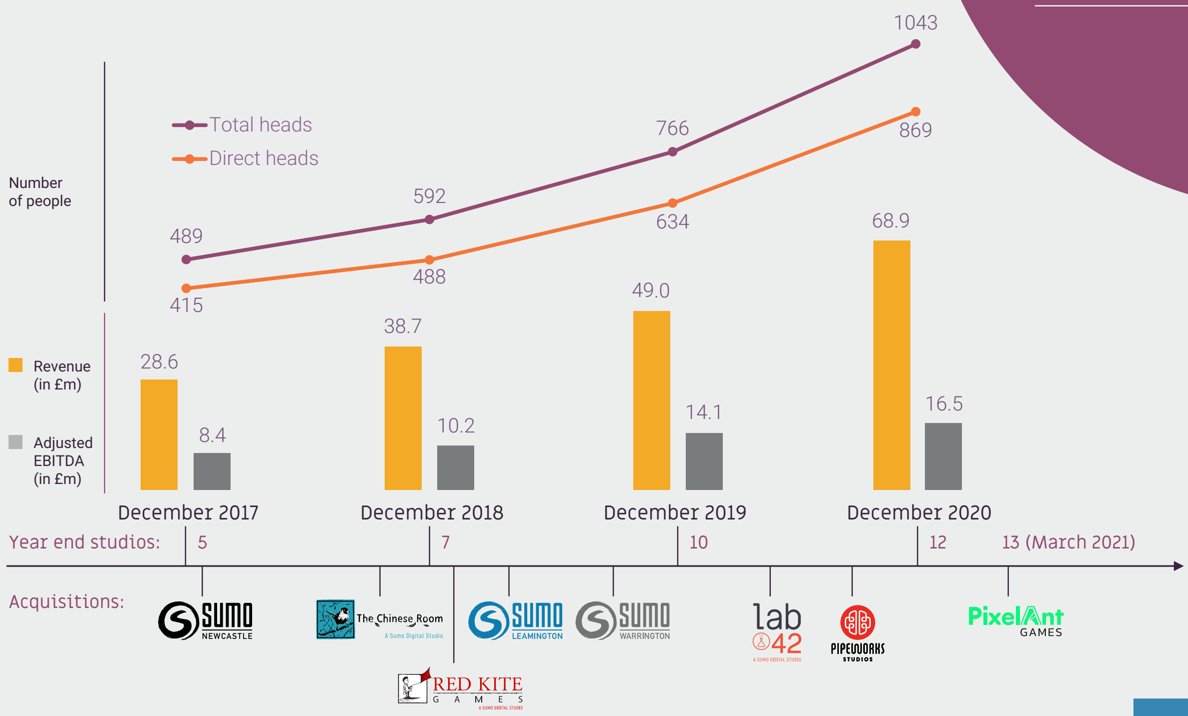
**Jun**

**>34%** Revenue CAGR since 2017

**>25%** Adjusted EBITDA CAGR since 2017

**24%** Organic revenue growth 2019 to 2020

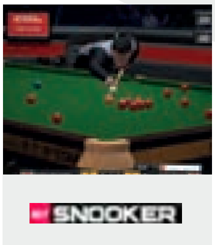
## Sumo Group Since the IPO

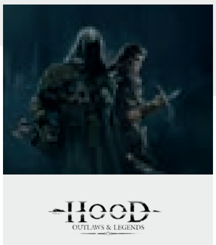



**1,043** Headcount

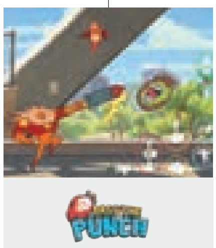
**12** Studios

**4** Countries



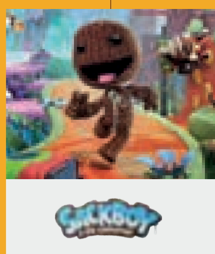


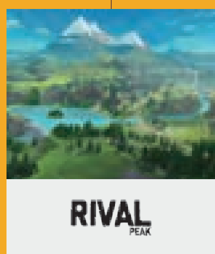




Jul | Aug | Sep | Oct | Nov | Dec

**Sep:** SUMO DIGITAL ACADEMY launched

**Oct:** Acquisition of US West Coast based Pipeworks




Director of Publishing appointed

## Chairman's statement

# Building a Global Business

**In my statement last year, I referred to the uncertainty caused by the COVID-19 pandemic, not anticipating that this would persist into 2021. The fact that I am able to report such a strong set of results, which outperformed market expectations, and introduce this statement so positively, is a testament to the people who make up Sumo Group. It is their dedication, creativity and skill that have made this possible and I am very proud of each and every one.**

Aside from very small numbers of team members working in our studios in COVID-secure bubbles, where essential, we continued to work from home throughout the year. Our IT colleagues responded brilliantly to enable this, and our teams diligently and successfully continued to deliver the high-quality services our clients expect, and to create and launch wonderful Own-IP games. The games we create are winning some outstanding awards. In particular, Sackboy A Big Adventure winning two BAFTAs earlier this month with two further nominations was a tremendous endorsement of our creative talent and recognition for our great people.

The Group has done everything in its power to support our people in these unusual circumstances, providing suitable office equipment to their homes; delivering care packages; and encouraging those suffering mental health challenges to access the internal or external assistance offered. We also worked hard to maintain some of our annual social events, hosting virtual summer and Christmas parties.

Talent is the Group's most important asset and key to our growth plans. The high value we place on our people has been demonstrated this year not only by the Group's response to COVID-19 but also by a major review of our employee benefits package. Our aim is to ensure that Sumo's offer is at least as good as any offered elsewhere in the industry, and that it provides flexibility, enabling our people to choose the benefits that are most important to them and their families. This new flexible package will be fully implemented during 2021.

We were absolutely delighted to be awarded 3 Star Accreditation in the Best Companies Survey in February 2021, up from 1 Star in 2020. This amazing achievement reflects our commitment to listening to our people and reacting to their feedback, particularly important during a lengthy period of working from home, ensuring that Sumo is known across the industry as a great place to work. We will not rest on our laurels, however. We will work hard to improve further and to cement our reputation in the talent market, which is so crucial to our success.

As our financial results show, 2020 was another year of significant growth for Sumo Group. Sumo Digital ended the year with eight studios in the UK and one in India, adding a new studio in the talent hot-spot of Poland in January 2021, with the acquisition of PixelAnt Games. Atomhawk also expanded during the year, adding to its teams in the UK and Canada. In October, we were delighted to welcome Oregon-based studio, Pipeworks Inc, to the Sumo family. I am pleased to report that, despite recruitment challenges imposed by the COVID-19 restrictions, the Group ended the year with over 1,000 colleagues.

The Group delivered an excellent financial performance, both in terms of its profitability and liquidity, continuing to operate successfully throughout the year without accessing emergency Government funding or the need to furlough any of our people.

While continuing to make innovative games for the most prestigious publishers in the world, we have an increasing number of titles based on our original Own-IP concepts. Spyder and Little Orpheus were both launched on Apple Arcade during the year, receiving extremely positive reviews and winning a number of awards. We intend to build on these successes and to capitalise further on the opportunities generated by our highly creative people.

On 11 March 2021, we launched Secret Mode, our new publishing division, led by a highly experienced management team. Secret Mode will focus on bringing fresh, smaller games, developed either internally or by independent developers, to market and provide a great platform for our talented people to demonstrate their creativity further. In line with the Group's overall strategy on risk, we are taking a very measured approach on this venture, carefully matching the opportunity of bringing games directly to market within a managed risk framework. We believe that having complete responsibility for a small number of carefully selected titles will allow the Group to benefit from the continuing rapid growth of the video games market. Online multiplayer games have increasingly become a location for social networking, accelerated by COVID-19, with the World Health Organisation supporting the industry initiative "play apart together".

As Chairman, I want to ensure that the Board's time and expertise is utilised to support the strategic development of the Group. With that in mind, the Board has received regular demonstrations of games in development and updates on industry developments and market trends. The Board also spent time across two days in a "virtual" strategy review. As we are all now well aware, long meetings by video conference can be productive, but present their own challenges.

I would like to thank all of my Board colleagues for their flexibility and contribution throughout the year.

The Board takes its governance responsibilities very seriously and this Annual Report details the structures and processes that we have in place. As I mentioned in my statement last year, we are placing increasing emphasis on Environmental, Social and Governance (ESG) matters, to ensure that we have the right framework in place to enable our business and talent to continue to grow and flourish in a sustainable way. More detail is provided in the ESG section of this Report.

2020 was a very productive and successful year for the Group and, on behalf of the Board, I thank everyone who contributed to that success. While we continue to face uncertainty as a result of this pandemic, our performance in 2020 and the very strong level of visibility we have on 2021 revenues, give me and the rest of the Board great confidence for the future.

**Ian Livingstone**
Chairman

# Why Invest? What we offer

## Growth potential

The video games market is vast and fast growing with ever-increasing demand for new content.

**$175 bn**
value of the global market[4]

**2.7bn**
gamers worldwide

## Capabilities and scale

Our competitive advantage lies in our scale, management systems, technology and our ability to attract the best creative talent.

**1,084**
people (at February 2021)

**13**
Studios in five countries

## Lower risk business model

Whilst the Group's business model is evolving, it continues to be relatively low risk with high visibility, generating both cash and sustainable profit margins.

**85%**
Contracted or near-contracted development fees for Sumo Digital and 50% for Pipeworks for 2021

**£6.8m**
Net Cash December 2020

## Strong track Record

Since its IPO in December 2017, the Group has delivered consistent revenue and Adjusted EBITDA growth

**>34%**
Revenue CAGR per annum since 2017

**124%**
Overall growth in people since IPO

[4] Newzoo, November 2020

# Business model

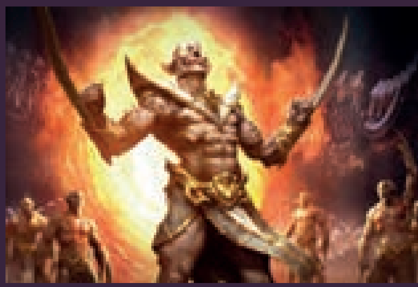
## How we operate

We make highly innovative games for the most prestigious publishers in the world, with an increasing number of titles based on original concepts developed by Sumo.

Our aim is to become a global leader in premium development and creative services to the video game and wider entertainment industries. Our stated strategic objectives are to expand; to win new clients; to develop complementary new revenue streams; and to develop our own IP - both self-funded and co-funded.

### More great games

- Client IP
- Own IP
- Secret Mode



### Acquisitions

- Services Geographies
- Clients
- Publishers

### Organic Growth

- Adding talent
- New studios
- Publishing

# Lower risk business model

We have a relatively low risk, high visibility business model, with long term contracts, which generates both cash and sustainable profit margins. Providing turnkey projects, we are deeply embedded with our clients due to knowledge of IP or use of Sumo's proprietary technology: often both!

## How we use our contract types to balance risk

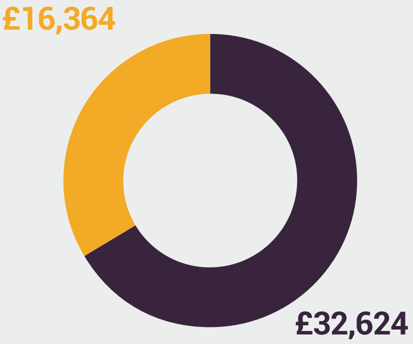
| Contract type | Game Development (turnkey or co-dev) | Own-IP – Game Revenues | Original concept creation developed in partnership with third party |
|---|---|---|---|
| Funding | Publisher | Sumo or third party | Co-funded with or fully funded by partner |
| Control of IP | Publisher | Sumo | Publisher (Sumo may retain legal ownership) |
| Payment Model | Milestone payments plus royalties as earned | Game sale revenues or guaranteed royalty (if funded by a third party) | Milestone payments plus royalties as earned |
| Accounting | • Development fees recognised using estimate of contract margin & percentage of completion<br>• Royalties earned subject to IFRS 15 recognition principles<br>• Development costs expensed as incurred | • Recognise revenue as earned or guaranteed royalties as contractual obligation triggered<br>• Capitalise development costs as intangible asset with regular impairment reviews (IAS 38) | • Development fees as for game development contracts<br>• Sumo investment expensed as incurred |

This table illustrates typical scenarios and does not refer to any specific contracts.

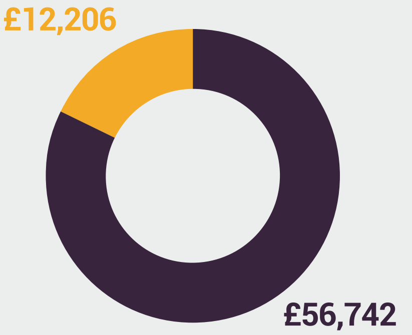
## Revenue Streams

Our strategy remains to move towards more Own-IP projects on a relatively low risk basis, where we see longer term opportunities to earn higher returns, but we retain a strong focus on quality Client-IP projects, including both turnkey and co-development work, for which we have a longstanding strong reputation.

2019 (£,000)




2020 (£,000)




Total Own IP Total Client IP

## How we use different contract types to balance our risk profile

The following case studies illustrate typical scenarios and do not refer to any specific contracts.

### Case study A:

# Game Development (turnkey or co-dev)

- Good development margin
- Low development risk
- Potential upside post launch

### 2020 Key Metrics
(as at 31 Dec 2020)

**37**
Number of live contracts

**£51.9m**
Development revenue

**£1.2m**
Royalty revenue

**£6.4m**
Accrued revenue > Billed revenue

A client generally originates the game concept and retains control of the IP at all times

Sumo engages with the client to develop the game to an agreed specification and Sumo accrues a right to payment for development work as it is performed. Agreed revenue for this single performance obligation to the client may contain elements which are fixed or variable

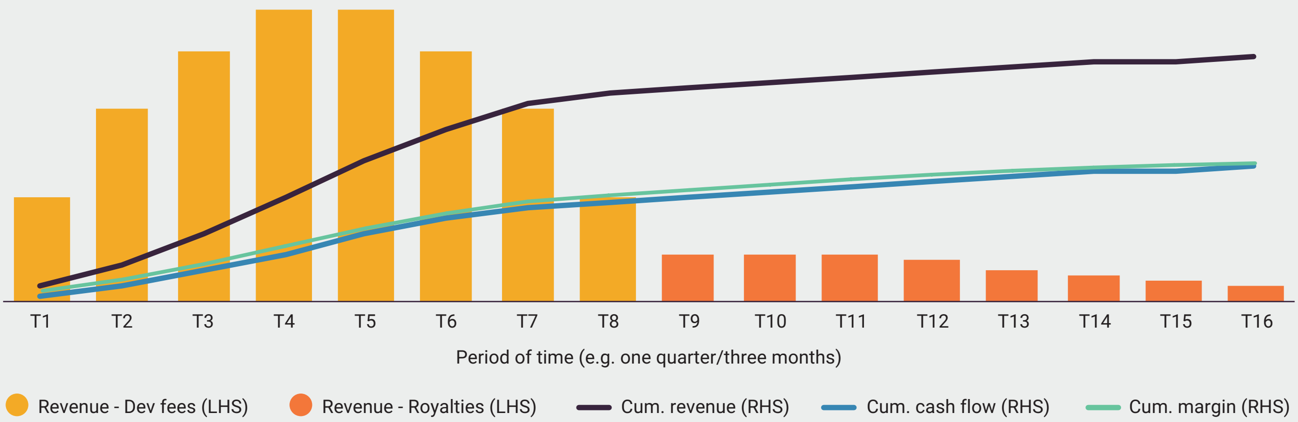
Fixed development revenues are recognised using judgement and estimates on the overall development phase contract margin and percentage of contract completion at each period end

- Cash receipts from publishers are non-refundable and scheduled broadly to follow the expected percentage of game completion

Variable consideration, typically in the form of royalty receipts are recognised as revenue only when it is highly probable they will be received

- Sumo's share of game sales in the form of royalties varies with contractual terms and ultimately depends on the game's success
- The timing of royalty receipts is dependent on the publisher's launch date

Development costs are expensed as incurred




Illustrative only

Case Studies
continued

**Case study B:**

# Own IP – Game Revenues

- No development margin
- Higher development risk
- Strong potential return on investment

**2020 Key Metrics**
(as at 31 Dec 2020)

| | |
|---|---|
| Number of live development projects | 2 |
| Number of launched revenue generating titles | 3 |
| Own-IP revenue | £0.5m |
| Intangible/WIP asset value | £1.8m |

Where Sumo has created its own concept and IP it may choose to self-fund a game's development

Sumo develops the game concept ready for launch using its own resources and retains control over the developed IP at all times

This would typically happen on smaller games (c.£1.0m in cost), such as Snake Pass, launched in March 2017

During the development phase, no development revenue is recognised. Sumo capitalises its development costs as an intangible asset with regular impairment reviews in accordance with IAS 38

Once the game is completed and launched, Sumo recognises game revenues as they are earned. The intangible asset is amortised as the game generates revenues and is subject to review for impairment at all times

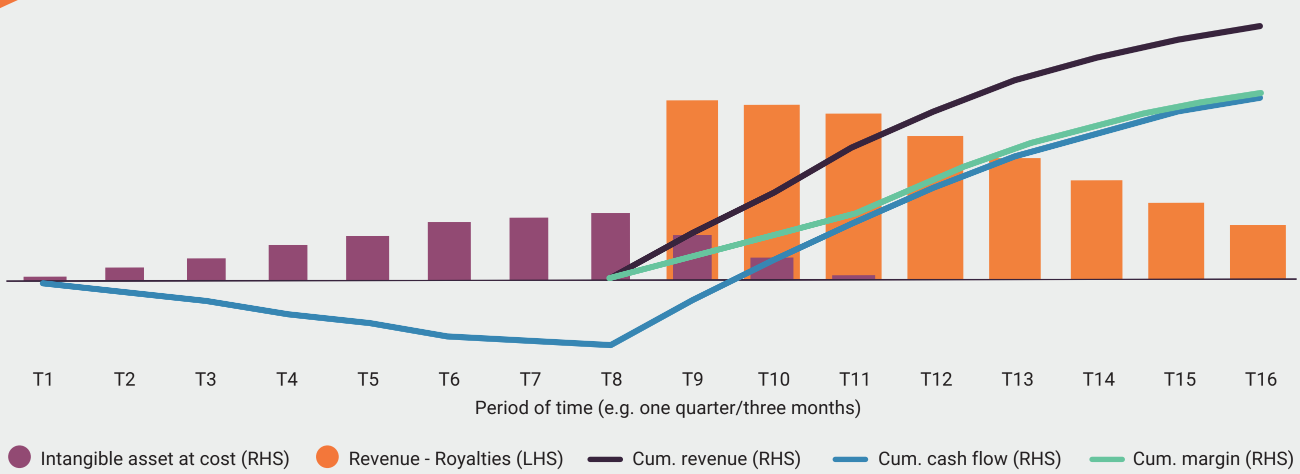
**OR**

Sumo may choose to use a third party to publish the game, transferring control of the developed IP to a third party publisher in exchange for consideration which may be fixed or variable

Typically, such contracts include fixed guaranteed royalties from the publisher which would be recognised at the point at which the game is handed over to the publisher

In this scenario the intangible asset would be derecognised at the point the game is handed over to the publisher

Variable revenues are recognised in accordance with client sales after launch




Illustrative only

Case Studies
continued

### Case study C:

# Original concept creation developed in partnership with a third party

- Lower development margin
- Low development risk
- Strong potential return on investment

### 2020 Key Metrics
(as at 31 Dec 2020)

| | |
|---|---|
| 2 | Number of live contracts |
| £10.4m | Development revenue |
| £2.0m | Royalty revenue |
| £0.2m | Net Sumo investment in development expensed |

Some of Sumo's concept creations may have the potential to be developed into larger, more complex games

Sumo engages with the chosen development partner (the 'client') to fully fund or co-fund the development of the game to an agreed specification and Sumo accrues the right to payment for development work as it is performed

Sumo originates the concept and agrees to transfer control of IP to the client as it is developed

Agreed revenue for this single performance obligation to the client may contain elements which are fixed or variable

- Fixed development revenues are recognised using judgement and estimates on the overall development phase contract margin and percentage of contract completion at each period end
- Variable consideration, typically in the form of royalty receipts are recognised as revenue only when it is highly probable they will be received
- Development costs are recognised as incurred

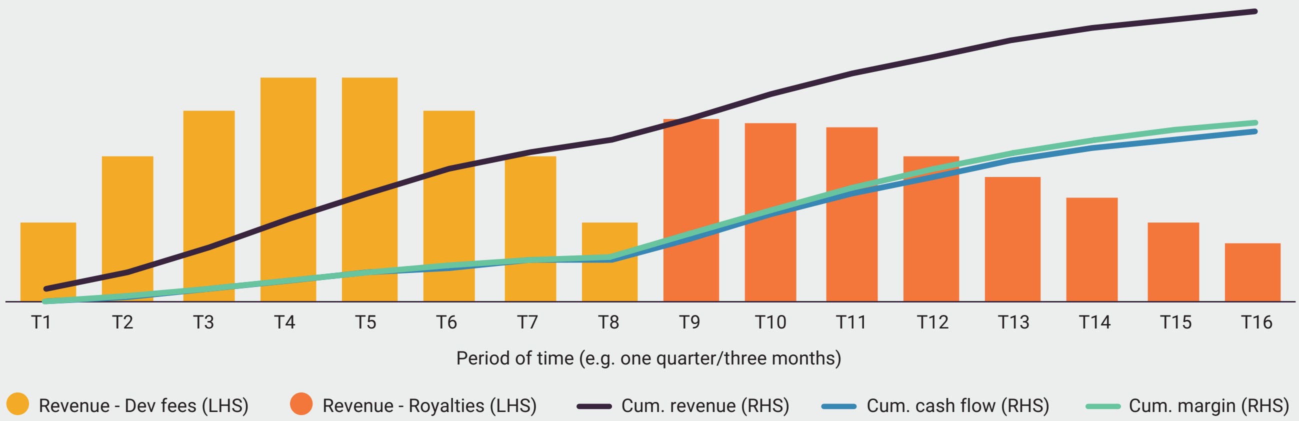
**Partial funding**
When a client is partially funding a game, contract margins during the development phase may be lower than those in a Client-IP game development contract, as the Group's investment in the game's development is expensed as incurred

- In this scenario, any investment by Sumo in developing game IP would typically result in the receipt of a greater share of game royalties, reflecting the Group's share of the risk and reward of a game's development
- Game sales in the form of royalties are recognised as revenue once it is highly probable that they will be received

**Full funding**

- Contract margins during the development phase should be consistent with Case Study A.
- The Group's share of game royalties would typically be higher than in Case Study A, to reflect the investment in concept creation, albeit overall game royalties ultimately depend on the game's retail success

£62.3m of the Group's £65.3m revenue from video games in 2020 is related to development contracts similar to the illustrative case studies A and C.




Illustrative only

# Our businesses

## An exceptional year of growth and achievement for our Group

## 'Achieving wonder together'

### The Sumo family

Delivering end-to-end visual and development solutions to the video games industry and beyond, from visual concept design and pre-production through to development, user-interface design, and post-release support.

### Group Stats

**1,084**
People (at February 2021)

**13**
Studios

**5**
countries

**7**
Client IP games launched or announced in 2020

**5**
total Own-IP games launched or announced in 2020

# Our People

## Best Companies 3 Star Accreditation

We were absolutely delighted to be awarded 3 Star Accreditation in the Best Companies Survey in February 2021, up from 1 Star in 2020. This amazing achievement reflects our commitment to listening to our people and reacting to their feedback, ensuring that Sumo is known across the industry as a great place to work. We will not rest on our laurels, however. We will continue to work hard to improve our scores, to cement our reputation in the talent market.


We've been busy in 2020

**279**
project milestones delivered

**12**
new games have been launched or announced

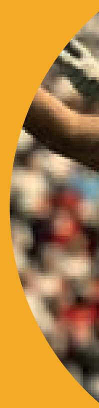
SUMO DIGITAL ACADEMY

For details see page 37

Our businesses
continued

# New additions welcomed to the Sumo family

We completed our third and fourth acquisitions in the year and our fifth shortly after the year end; acquiring UK based Lab42 in May 2020 and US West Coast Pipeworks in October 2020 and then PixelAnt in Poland in January 2021, taking the Group to 13 studios across five countries.



## About Lab42

Lab42, based in Leamington Spa, is a cross-platform work for hire studio, providing co-development and full game development services. It has worked on 17 projects for console, PC and mobile since it was established in January 2015. Past and present clients include Sega Europe Publishing, Klei Entertainment, Aspyr, Ripstone, Dovetail Games and Payload Studios.

Lab42 holds an exclusive licence to use the World Snooker Tour brand and was sole developer on the photo-realistic, sports simulation game Snooker 19 for all major consoles and PC, published by Ripstone. It is continuing development on World Snooker products. Other well-known titles on which Lab42 has worked include Yakuza 0 and Yakuza Kiwami, Football Manager Touch 18, Sonic Mania, Terratech and Fishing Sim World.

Since joining the Group in May, Lab42 has integrated well, performing ahead of expectations. The team is now 40 people strong, having added a further 11 people.

**Carl Cavers, Chief Executive of Sumo Group:**
"Lab42 is a super business and we are delighted to welcome Ed and his team to Sumo Group and to the Sumo Digital family of studios."

A SUMO DIGITAL STUDIO

## About Pipeworks

Pipeworks was founded in 1999, it is an innovative and highly experienced full and co-development studio, based in Eugene, Oregon with a focus on advanced technology and innovative gameplay for both established and emerging IP. The business has developed or co-developed over 100 games and advanced technology solutions for almost 50 clients and partners. Client-IP games include Madden NFL20 and NFL21, co-developed with EA Sports (Madden NFL). Pipeworks' clients include Electronic Arts (Madden NFL), Wizards of the Coast, Google, Genvid, and Age of Learning, which both add and are complementary to Sumo Group's existing relationships.

Pipeworks gives Sumo Group a significant and well-established presence on the West Coast of the US, from which to expand in the US market, as well as adding 134 people with an abundance of valuable experience to the Group.

**Lindsay Gupton, Chief Executive Officer of Pipeworks:**

"We are absolutely thrilled to be joining Sumo Group. Our ambition is to be the best and most innovative game developer in North America and this will be a 'level-up' for all of us at Pipeworks. The cultural fit between Pipeworks and Sumo is remarkable, and we all love to make great games with great partners. I can't wait for this next big chapter in the long history of Pipeworks Studios."

**Carl Cavers, Chief Executive of Sumo Group:**

"This is a major step forward for our business. Having known Lindsay for some time and been a keen follower of Pipeworks, I am naturally delighted to welcome Lindsay and his team to Sumo Group and look forward to working together and sharing an exciting future."

## About PixelAnt Games

PixelAnt is based in Wroclaw, brought an immediate presence for the Group and an established base for growth in Poland's booming video games development industry. PixelAnt, which was founded in July 2020, was well known to the Sumo Digital management as its team of 13 developers were working entirely on Sumo Digital projects.

Our businesses
continued

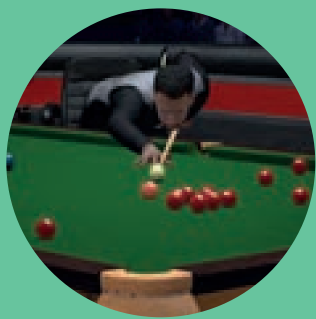
# Games launched in 2020


## The Client-IP games include

- **Two Point Hospital**, by Red Kite Games and published by Sega
- **Mafia III: Definitive Edition**, development led by Red Kite Games for Hangar 13, published by 2K
- **Sackboy A Big Adventure**, by our Sheffield studio for Sony
- **Hotshot Racing**, developed in our Nottingham studio and published by Curve Digital
- **Battletoads**, co-developed by Red Kite Games, Dlala Studio and Rare, published by Xbox Game Studios
- **Rival Peak**, an exclusive title for Facebook's new cloud gaming platform, developed by Pipeworks
- **Football Manager 21**, involved some development from our Warrington studio alongside Sports Interactive, published by Sega

## The Own-IP games

- **Spyder** and **Little Orpheus**, developed in our Sheffield studio and The Chinese Room in Brighton respectively, for Apple Arcade
- **WST Snooker,** the official video game of the World Snooker Tour developed by Lab42 for iOS, tvOS and Android mobile devices
- **Hood**, a dark re-imagining of the Robin Hood legend, developed in our Newcastle studio to be published by Focus Home Interactive
- **Pass the Punch** launched in December 2020



## Growing Own-IP library and launch of Secret Mode publishing division

On 11 March 2021, we launched Secret Mode, our new publishing division, led by a highly experienced management team. Secret Mode will focus on bringing fresh, smaller games, developed either internally or by independent developers, to market and provide a great platform for our talented people to demonstrate their creativity further.

Library of Own-IP games to date:

- **Snake Pass**
- **Dear Esther**
- **Spyder**
- **Little Orpheus**
- **WST Snooker**
- **Hood**
- **Pass the Punch**
- **Prominence Poker**

# Awards won

**Red Kite Games** and **Sumo Leamington** won **GI.biz awards** for **Best Small Business and Diversity** respectively

Both these studios along with **Lab42** also won a "**Best Places to Work**" Badge

**Sumo Digital** was awarded Best External Development Partner of the Year at the **MCV/Develop Awards 2020**

**The Chinese Room's Little Orpheus** won the **TIGA Award for Best Casual Game** and the **Apple Arcade Community Ward – Best Performance**

**Little Orpheus** was also nominated for **Golden Joysticks – Best Mobile Game**, **TIGA Awards – Best Action/Adventure Game** and **TIGA Awards – Best Visual Design**

**Little Orpheus** has been selected as a finalist for the **24th Annual D.I.C.E. Awards for Mobile Game of the Year** and **Outstanding Achievement in Original Music Composition**

**Red Kite Games**, **The Chinese Room** and **Lab42** were all nominated for **TIGA Awards – Best Studio (Small)**

**Nottingham studio** received a **TIGA nomination for best driving game** for **Hotshot Racing**

Producer **Ines Lagarto** from our **Lab42** team was nominated for a **Rising Star of the Year Award at the Women in Games awards**

**Sackboy A Big Adventure** was as a finalist for **Outstanding Achievement in Audio Design** and **Family Game of the Year** also at **24th Annual D.I.C.E. Awards**

**Pipeworks** received the accolade of **Best Tech Company** in the **Best of Eugene Awards**

**Atomhawk** was shortlisted for four **TIGA awards**

**Tim Wilson**, the Managing Director of Atomhawk, won the **External Development Summit (XDS) award** and became **member of BAFTA's 2021** intake

BAFTA WINNER GAMES

Two BAFTAs won for **Sackboy, A Big Adventure,** best British game and best family game, in March 2021

# Our markets

## In November 2020 Newzoo increased its revenue projections for 2020 from $159.3bn to $174.9bn.

## There are estimated to be more than two billion people playing video games.

The trend towards digitalization and the proliferation of new platforms is making video gaming ever more accessible and with improving connection quality and increasing bandwidth, plus technological progress the gaming experience continues to improve.

The year saw the launch of the next generation PlayStation and X-Box consoles. In February 2021, Sony revealed that 4.5 million PS5 units had been sold in just under two months since the new console's launch. The PS4 is also enjoying a resurgence, selling 1.4 million units in the same period. Microsoft reported that the X-Box Series X/S saw the largest sales on the launch day of any console in the company's history. The Nintendo Switch also performed very strongly selling 23.5 million units in 2020, taking total unit sales to c.80 million since launch.

The new subscription models and cloud-based systems have significantly driven the demand for premium content and strengthen the position of the video game developers. It is notable that during a period of sustained and wide-ranging restrictions on physical movement gaming has become even more important as a means of providing social contact and interaction. The model continues to move away from being hit driven and the relationship between developers, publishers and players is evolving, creating more opportunities.

**Carl Cavers, CEO:**

"The advancement of technology and new platforms are fuelling market trends. On the back of this, game publishers' confidence to increase the scope and spend on games continues to grow, underpinning the long-term growth of the Group."

The UK games market is valued at

£7bn

in 2020

**30% increase**
on 2019 figures

The global games market was valued at

$196bn

in 2021

$174.9bn
in 2020

Source: Ukie/Newzoo

- Increased digital production
- More platforms & delivery models
- Backwards compatibility has resulted in smoothing of console life cycles
- Increased demand for high-quality creative output
- Sumo is well positioned to benefit from that increased demand

# Our strategy

## Our stated strategic objectives are to expand; to win new clients; to develop complementary new revenue streams; and to develop our own IP - both self-funded and co-funded.

We achieve this by making more great games both Client-IP and Own-IP; through acquisitions that add services, new geographies and clients and through continued organic growth, adding people and studios.

| Achieved during the year | Priorities for 2021 |
|---|---|
| **Deliver and expand** | |
| • Revenue growth of 41%<br>• Adjusted EBITDA growth of 17%<br>• Headcount increased by 36%<br>• Two further studios added through acquisitions of UK based Lab42 and US based Pipeworks (see pages 16-17 for more on these new additions to the Group)<br>• Fourth geography added through acquisition of Pipeworks<br>• 12 Games launched or announced (see our businesses page 18 for more detail)<br>• Sumo Digital Newcastle move to newly built larger studio alongside Atomhawk<br>• The Chinese Room move to larger studio in central Brighton | • Continue recruitment and manage attrition rates<br>• Open further studios and complete acquisitions – in 2021 we have added a further studio and geography with the acquisition of PixelAnt in Poland (see our businesses page 17 for more detail). The acquisition pipeline is strong<br>• Maintain our Best Companies 3 Star rating<br>• Deliver on our ESG programme |
| **Identify new strategic partners** | |
| • Worked with 2K, Apple, Aspyr, Codemasters, Curve Digital, Dovetail, Focus Home Interactive, Rare, SEGA, Sony and Sports Interactive (also part of SEGA)<br>• Three new clients added | • Sumo Digital and Pipeworks are now working on over 40 projects with 28 clients of which eight games or publisher partnerships have been announced |
| **Add new revenue streams** | |
| • Acquisition of Pipeworks<br>• Appointment of Director of Publishing | • 'Secret Mode' our new publishing division launched in March (see our businesses page 17 for more details) |
| **Develop valuable own IP** | |
| • Five Own-IP games launched<br>• Own-IP added with acquisitions: Prominence Poker, WST Snooker | • Accelerate growth, through the development of Own-IP games, either self-funded, co-funded or fully funded, and through acquisition<br>• PixelAnt to work on new Own-IP |

# Chief Executive's Review

## For many reasons 2020 was an extraordinary year.

Revenue
**+40.7%**

Gross profit
**+31.5%**

Revenue CAGR since 2017
**>34%**

headcount increase in the period
**+36%**

### Introduction

**For many reasons 2020 was an extraordinary year. We delivered 279 project milestones and launched or announced a total of 12 games, a record for Sumo, including five Own-IP, as well as completing our first major acquisition, facing the challenges of the pandemic restrictions head on. The incredible commitment of our people, virtually all of whom are continuing to work remotely, never ceases to impress me. I am grateful to everyone for their individual efforts under such challenging circumstances. Our operational performance in these extraordinary circumstances is testament to our collective talent, flexibility, and dedication throughout the Company.**

In January 2021, we announced that FY20 revenue and Adjusted EBITDA were expected to be ahead of consensus market expectations with Adjusted EBITDA of at least £16.0m. I am pleased to report that revenue increased by more than 40% to £68.9m (2019: £49.0m) and Adjusted EBITDA by 17.1% to £16.5m (2019: £14.1m), driven primarily by strong organic growth and the contribution from our recent acquisitions. The statutory profit before taxation of £0.9m (2019: £7.4m) is stated after charging an amount of £7.3m arising on the acquisition of Pipeworks, and after charging exceptional items, other than the costs incurred on that acquisition, of £1.2m (2019: £0.5m), and the share-based payment charge of £5.0m (2019: £2.7m) and an unrealised gain on foreign currency derivative contracts of £1.0m (2019: zero).

We made significant progress on the M&A element of our growth strategy, with the acquisition of a further studio in the UK, Lab42, in May 2020, followed by the purchase of a stand-alone US-based studio, Pipeworks, in October. Both these businesses are performing well. We were also pleased to add another studio to Sumo Digital's growing portfolio, when we acquired PixelAnt Games, in Poland in January 2021. We now total 13 studios in five countries.

Despite the previously indicated challenges in recruitment which have resulted from the COVID 19 disruption, Group headcount increased by 277 to 1,043 at 31 December 2020, including an aggregate of 163 people who joined through the acquisitions of Lab42 and Pipeworks.

Our market continues to grow apace, with increasing demand for high quality, interactive content, driven by advancing technology and new platforms and boosted by a material increase in the numbers of video gamers globally during the pandemic. Our very strong pipeline of business development opportunities on major new projects, with both existing and new clients, reflects confidence in our capabilities and we continue to sign significant contracts. In addition, we are exploring a number of interesting Own-IP concepts and the delayed contract execution to which we referred in our half-year results has now been signed.

We continue to develop great games, both Client-IP and Own-IP, and successfully recruit talent, which lies at the heart of our growth ambitions. The Board is delighted with the achievements of the business under difficult circumstances.

Chief Executive's Review
continued

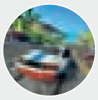
## Games launched or announced in 2020

We launched or announced an unusually large number of both Client-IP and Own-IP games in 2020.

### Client-IP games included:

**Two Point Hospital**, a simulation game ported to new platforms by Red Kite Games and published by Sega for PlayStation 4, Xbox One and Nintendo Switch, was released in February 2020;

**Sackboy A Big Adventure,** a turnkey project developed by our Sheffield studio for Sony, was announced at the PlayStation 5 reveal event in June 2020 and launched with this new console and PlayStation 4 in November 2020;

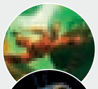


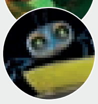
**Hotshot Racing**, an arcade-style racing game developed in our Nottingham studio and published by Curve Digital was released on Xbox One, PlayStation 4, Nintendo Switch and PC;

**Rival Peak**, an exclusive title for Facebook Watch utilising Genvid's cloud gaming platform, developed by Pipeworks with Genvid Technologies was released in December; and

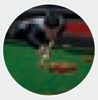
**Football Manager 2021**, the latest in the series from Sega that involved some development from our Warrington studio alongside Sports Interactive.

### Own-IP games were:

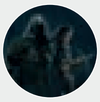




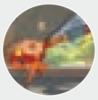
**Spyder** and **Little Orpheus**, developed in our Sheffield studio and The Chinese Room in Brighton respectively, were launched on Apple Arcade;



**WST Snooker,** the official video game of the World Snooker Tour developed by Lab42 was launched in July for iOS, tvOS and Android mobile devices;



**Hood,** a dark re-imagining of the Robin Hood legend, developed in our Newcastle studio and to be published by Focus Home Interactive, was announced in August; and



**Pass the Punch** launched in December 2020.

## Our strategy and Own-IP

Our stated strategic objectives are to expand; to win new clients; to develop complementary new revenue streams; and to develop our own IP - both self-funded and co-funded. We achieve this by making more great games both Client-IP and Own-IP; through acquisitions that add services, new geographies, and clients and through continued organic growth, adding people and studios.

We remain firmly committed to our relatively low risk, high visibility business model, which generates both cash and sustainable profit margins with royalty opportunities. Our creative talent continues to make great content and our work is respected globally. The Group is rarely directly exposed to the commercial success of Client-IP games but can benefit from upside where royalty agreements are in place.

Our primary focus remains developing Client-IP. However, as the Group expands, we expect to work increasingly on Own-IP, without taking undue risk, to generate greater financial returns and to provide a creative outlet for our highly talented people. Our plan is to accelerate the Group's growth, through the development of Own-IP games, either self-funded, co-funded or fully-funded, and through acquisition. We are gradually building a catalogue of valuable Own-IP titles and have, as previously announced, appointed a very experienced Director of Publishing, who joined us in November 2020, and we have announced the launch of Secret Mode.

Concepts are created predominately by our concept team and development studios, but also from Game Jams, which we are now running remotely.

## Visibility

We have invested in our business development capability by increasing the size of the team and investing in systems, and this has contributed to an increase in our win percentage. Despite the restrictions on travel and trade events, we are continuing to see business development opportunities on major new projects with both existing and new clients. Our pipeline of opportunities at the end of February 2021 comprised a total contract value of £429m and we are seeing a pronounced upward trend in the number of new opportunities each month. In 2020, we saw the highest volume of project opportunities for the past four years. During the year, we fully executed 49 development agreements in Sumo Digital, of which 34 were in the second half of the year.

One of the great strengths of Sumo is the high visibility of our development fees from our long-term contracted business model. We have, in the past, disclosed the contracted or near-contracted visibility of budgeted development fees for Sumo Digital. At 28 February 2021, this figure stood at 85% of Sumo Digital's budgeted development fees for FY21, up from the 73% we had secured by 31 March 2020 for FY20. On a broadly comparable basis, Pipeworks has 50% visibility of its budgeted development fees for 2021, the same level as the prior year. Sumo Digital and Pipeworks are now working on more than 40 projects with 28 clients, of which eight games or publisher partnerships have been announced.

These figures bear testament to the strength of the underlying market for high quality creative content and underpin the Board's confidence in the out turn for 2021.

## Acquisitions

### Lab42

Lab42 is a cross-platform work for hire studio, providing co-development and full game development services and was acquired for a total cash consideration of $0.6m in May 2020. The studio has integrated well and is performing strongly and ahead of expectations. Having hired 11 people since the acquisition, the team now totals 40.

### Pipeworks

Pipeworks is an innovative, well-established, and respected West Coast US games developer, acquired by the Group for an original deal value of up to $99.5m in October 2020. Further details on the fair value of the consideration are set out later in this document. We have known the team for many years and are very pleased with the cultural alignment. Pipeworks operates as a standalone business under its own management team. We have made good progress with the integration of the IT support and finance functions. Pipeworks performed strongly in the period post-acquisition to the year end.

### PixelAnt Games

Post the year end, we announced the strategic acquisition of PixelAnt Games, based in Wroclaw in Poland. The team at PixelAnt is presently working entirely on Sumo Digital projects. The intention is to expand the studio's headcount, accessing the growing pool of high-quality developers in the Polish market and focus on winning third party contracts, while continuing to work on Sumo Digital projects. The PixelAnt team will also work on Own-IP opportunities. We are encouraged by the performance of PixelAnt in the short period it has been part of Sumo Group.

## Results

We grew rapidly in 2020. Revenue rose by 40.7% to £68.9m (2019: £49.0m). Since 2017, we have achieved a revenue CAGR of more than 34%. The increase in revenue was driven by continuing strong organic growth together with the acquisitions of Lab42 and Pipeworks which generated post-acquisition revenue in 2020 of £6.1m and £2.2m respectively. Excluding Lab42 and Pipeworks, the Group's revenue increased by 24%. Utilisation across the group was 92.6% (2019: 95.8%).

The Group reported a statutory profit before taxation of £0.9m (2019: £7.4m) and achieved Adjusted EBITDA of £16.5m in 2020, an increase of 17.1% on the figure of £14.1m in 2019.

Further details of the financial results are set out in the Chief Financial Officer's Review.

## Operational review

### Sumo Digital – representing 87% of Group revenue

Sumo Digital ended the year with nine studios, eight in the UK and one in India, with the acquisition of PixelAnt post year end taking the total to ten. How and when we return to working from our studios is currently under consideration, but we expect to combine it with flexible and remote working, subject to client consent. In anticipation of this we are managing our portfolio of premises. Sumo Digital's Newcastle studio has moved to the newly built facility in Gateshead, alongside Atomhawk. The Chinese Room has moved to a new and larger studio in central Brighton. In Sheffield, we have completed a new audio suite, which has three edit studios, a Foley studio, for creating everyday sounds, and a mixing room.

## Chief Executive's Review continued

During the year, we appointed a new Studio Director in Pune and recruited 25 people, taking the team to 137.

The utilisation rate across the UK studios in the year was 95.7% (2019: 96.9%). In Pune, the rate was 79.3% (2019: 91.3%), which is comparable with historical levels of utilisation. The utilisation for Sumo Digital overall was 92.8% (2019: 95.9%).

As usual, we are constrained in disclosing all of our clients, but we are able to say that we worked with 2K, Apple, Aspyr, Codemasters, Curve Digital, Dovetail, Focus Home Interactive, Rare, SEGA, Sony, and Sports Interactive (also part of SEGA) in 2020.

We were delighted with the award nominations and wins achieved across the Group in 2020. Sumo Leamington won The Diversity Award in the GI.biz Awards 2020 and Red Kite Games secured Best Small Company. Both these studios, along with Lab42, achieved a "Best Places to Work" award. Sumo Digital was awarded Best External Development Partner of the Year at the MCV/Develop Awards 2020. The Chinese Room's Little Orpheus won a TIGA Award for Best Casual Game. More recently, Little Orpheus has been selected as a finalist for the 24th Annual D.I.C.E. Awards in the Mobile Game of the Year and Outstanding Achievement in Original Music Composition categories.

Sackboy A Big Adventure won two BAFTAs earlier this month, Best British Game and Best Family Game, and two further nominations, and is in contention for Outstanding Achievement in Audio Design and Family Game of the Year at next month's Annual D.I.C.E Awards.

### Pipeworks – representing 9% of Group revenue in the ten weeks post acquisition

Pipeworks has strong client relationships and, prior to the acquisition, co-developed Madden NFL 21 with EA Sports, launched Terraria 1.3.5 for Switch, Xbox One and PlayStation 4 with Relogic and 505 Games and relaunched Superfight as a free-to-play game. As part of the acquisition, Pipeworks reacquired the rights to Prominence Poker, the poker simulation game, from 505 Games and subsequently Rival Peak was launched with Genvid, Facebook and DJ2 Entertainment. This game has received a lot of positive press comments for its ground-breaking AI.

Pipeworks is developing Magic the Gathering: Spellslingers for Wizards of the Coast and is working on two Own-IP games among other projects. Other clients include 505 Games, Age of Learning, Carnival Corporation, EA Sports, Genvid/Facebook, Google, and NASA.

During the year, Pipeworks recruited 34 people and there were a number of internal promotions. The team achieved the accolade of Best Tech Company in the Best of Eugene Awards.

In the year ahead, we plan to renovate the 45,000 sq ft studio in Eugene.

### Atomhawk – representing 4% of Group revenue

Atomhawk worked on more than 50 projects in 2020, the large majority of which are as yet unannounced AAA titles and franchises. We are able to report, however, that Atomhawk provided visual development for FIFA '21 (for EA), Puzzle Combat (Small Giant Games / Zynga), XCOM: Chimera Squad (2K), PlayerUnknown's Battlegrounds (PUBG Corp.) and Call of Duty: Black Ops – Cold War (Activision Treyarch) all of which were launched or received content updates in 2020. Clients include 2K, Activision, EA, Games Workshop, Hasbro, WB Interactive Entertainment, XBOX Game Studios, and Zenimax Online. Atomhawk has worked on multiple collaborations with Sumo Digital including Spyder, Little Orpheus and Hood, as well as other unannounced games.

In anticipation of, and to facilitate further growth, Atomhawk moved both the UK and Canada studios in the autumn to new, larger, state-of-the-art custom locations in Gateshead, near Newcastle, and Vancouver respectively. Darren Yeomans was appointed as UK Studio Director during the year, bringing extensive experience from previous roles at Ubisoft, Codemasters and Starbreeze.

Atomhawk was shortlisted for four TIGA awards in 2020 and Tim Wilson, Managing Director of Atomhawk, won an External Development Summit (XDS) award and was invited to join BAFTA's 2021 membership intake.

To mark its 10-year anniversary in 2019, Atomhawk sponsored the exhibition Other Worlds: The Art of Atomhawk at Great North Museum: Hancock. This installation provides an insight into the processes used by digital artists, along with examples from the studio's first decade. The exhibition has a comprehensive local engagement programme, working with local schools and communities to provide education on creative and digital skills on offer in the North East economy. This engagement programme went digital as a result of the COVID-19 restrictions, which will remain so until mid-June 2021 at the earliest.

## People

Our continuing growth and success are entirely dependent on recruiting and retaining talented people. Total Group headcount increased from 766 at 31 December 2019 and 853 at 31 August 2020 to 1,043 at 31 December 2020. Direct headcount at 31 December 2020 was 869 (31 December 2019: 634).

Staff attrition rates in the UK and India ran at 9.3% and 8.3% respectively (2019: 8.6% and 11.5% respectively). We continue to work with valued and proven contractor colleagues alongside our own people.

While it is our expectation and intention to return to some form of studio-based working and expand our studios both in size and number of locations, the expedited move to working from home brought about by COVID-19 has opened up a new raft of possibilities. Flexible working potentially widens the pool of talent from which we are able to recruit. Employee location to the studio will become less relevant, as they may not need to be studio based every day. This is an exciting opportunity for us as a business to attract a more diverse pool of talent into the industry.

Sumo is a people business and, while the Group has enjoyed considerable success during these challenging times, we appreciate the tremendous strain the pandemic has placed on some of our stakeholders and employees. Once again, I would like to give my heartfelt thanks to everyone at Sumo for their creativity, passion, and commitment and for their support and resilience in the face of the COVID-19 situation.

The award of 3 Star Accreditation in the Best Companies Survey 2021 was a fantastic achievement for the Group, especially under such challenging circumstances. Employee engagement in the survey was higher than it has ever been, with 88% of our people contributing. We will continue listening to our people and adapting to meet their needs, as we strive to make Sumo the best place to work in video games.

The Group has not used, and does not expect to use, any furloughing arrangements or other government COVID-19 support measures.

## Environmental, Social and Governance ("ESG")

ESG is increasingly important to all our stakeholders and is at the heart of our business. The Board has reviewed and refined its approach to ESG, obtaining feedback from colleagues and investors. This has emphasised the areas of greatest importance to Sumo and where the organisation can have the greatest impact. As a people business, this is in the "social" element. The result is a set of clear targets for the year ahead that are set out in the ESG section of this Annual Report and Accounts and on the Group website. We will regularly report on progress against these and will review them again towards the end of 2021 to ensure they remain relevant.

We have carefully considered whether there is a single, overarching third party accreditation that would be suitable. Our conclusion was that there is currently a myriad of standards, none having universal recognition amongst our stakeholders, and we have therefore decided to set our own framework at this stage.

This 2020 Annual Report and Accounts includes our first Streamlined Energy and Carbon Report ("SECR").

On 9 September 2020, we announced the launch of the Sumo Digital Academy, a training scheme to bring new talent into the games industry by recruiting from outside of traditional education channels. The first five programmer trainees have joined the scheme and are helping to shape the Academy programme in advance of plans for a formal apprenticeship scheme. We plan for trainees from the Academy to work on developing games at Secret Mode, our newly announced publishing division.

**Carl Cavers, CEO:**

"Our continuing growth and success are entirely dependent on recruiting and retaining talented people so to achieve 3 Star Accreditation, the highest honour, from the Best Companies Survey 2021, was a fantastic achievement."

Chief Executive's Review
continued

## The market

The pandemic has undoubtedly accelerated the already strong growth in the global video games market. In November 2020, Newzoo increased its revenue projections for 2020 from $159.3bn to $174.9bn and forecast that this will grow to $217.9bn in 2023, representing a CAGR of 7.6%. There are estimated to be more than two billion people playing video games globally, and the evidence suggests that more people are playing games and consumers are spending more time playing and more money buying video games than ever before.

The trend towards digitalization and the proliferation of new platforms is making video gaming ever more accessible and the technological progress has improved the gaming experience. The year was notable for the launch of the next generation of the PlayStation and Xbox consoles. In February 2021, Sony revealed that 4.5 million PlayStation 5 units had been sold in just under two months, following the new console's launch in November 2020, with the PlayStation 4 also enjoying 1.4 million unit sales in the same period. Microsoft reported that the Xbox Series X/S saw the largest sales on the launch day of any console in the company's history. Meanwhile the Nintendo Switch went from strength to strength, selling 23.5 million units in 2020, taking total unit sales to c.80 million since launch. Connection quality is improving and bandwidth increasing.

The new subscription models and additional new platforms have significantly driven the demand for premium content and strengthened the position of the video game developers. It is notable that during a period of sustained and wide-ranging restrictions on physical movement, gaming has become even more important as a means of providing social contact and interaction. The model continues to move away from being hit driven and the relationship between developers, publishers and players is evolving, creating more opportunities.

We expect the strong underlying growth in the video games market, demonstrated in the years prior to the pandemic, to be sustained in the long term, driven by these fundamental factors.

There continues to be a significant amount of acquisition activity in the video games sector, as investors target strong growth opportunities. The industry, however, remains highly fragmented, presenting further opportunities for the Group.

## Outlook

The advancement of technology and new platforms are fuelling market trends. On the back of this, game publishers' confidence to increase the scope and spend on games continues to grow, underpinning the long-term growth of the Group, as global demand for reliable providers of premium content with a proven reputation for quality remains constrained only by capacity.

Our new publishing division, Secret Mode, has been established to enable the Group to capitalise further on the insatiable demand for fresh and innovative games. We look forward to updating our shareholders on its progress in the year ahead, as we invest in the mid to long-term success of this venture.

Our acquisition pipeline is strong, and we are actively pursuing a number of targets. We are keen to acquire owner-managed businesses, where the vendors and key people remain with the business post acquisition and where we can use our listed shares to provide attractive ongoing incentive arrangements.

While the pandemic has undoubtedly turbo charged the video games market, the foundation of our increasing confidence is based on underlying market growth trends that show no sign of abating. We have a very strong pipeline of opportunities and excellent levels of visibility. Accordingly, the Board views the prospects for the Group in the year ahead and beyond extremely positively.

**Carl Cavers**
Chief Executive Officer

# Group Financial Review

The Group performed strongly in 2020, delivering revenue of £68.9m and Adjusted EBITDA of £16.5m, outperforming consensus market expectations, which had already been upgraded in January 2021 following the Group's positive trading update.

## Revenue

Our revenue is disclosed, once again, under five categories, distinguishing between revenue generated from Client-IP and that generated from Own-IP. The former consists of development fees and royalties, and the latter consists of development fees, royalties, and game revenues. We have always been clear that the mix of Client-IP and Own-IP revenue will vary, depending on project mix and status during a particular financial period, and the six or 12 monthly reporting periods are much shorter than the typical period for the development of a single video game.

Most of the Group's revenue is generated from turnkey projects, developing the entire game, although we continue to do some co-development work.

In 2020, 18% of revenue was generated from Own-IP (2019: 33%), reflecting the changes in project mix and status year on year. Our strategy remains to move towards more Own-IP projects on a relatively low risk basis, where we see longer term opportunities to earn higher returns, but we retain a strong focus on quality Client-IP projects, including both turnkey and co-development work, for which we have a longstanding strong reputation.

Royalty income in the year includes an amount of £0.3m (2019: £1.0m) in recognition of variable consideration under IFRS 15, which is future royalty income expected to be received.

The analysis of revenue for 2020, together with the 2019 comparative figures, is as follows:

| Revenue | 2020 | 2019 |
|---|---|---|
| Client-IP Development | £55.4m | £31.3m |
| Client-IP Royalty | £1.3m | £1.3m |
| **Total Client-IP** | £56.7m | £32.6m |
| **% of total revenue** | 82% | 67% |
| | | |
| Own-IP Development | £9.9m | £16.0m |
| Own-IP Royalty | £1.9m | - |
| Own-IP Game Revenues | £0.4m | £0.4m |
| **Total Own-IP** | £12.2m | £16.4m |
| **% of total revenue** | 18% | 33% |
| | | |
| **Total revenue** | **£68.9m** | **£49.0m** |

## Key performance indicators

### Gross margin
**45.7%**
(2019: 48.9%)

### Adjusted gross margin
**41.8%**
(2019: 44.8%)

### Adjusted EBITDA
**£16.5m**
(2019: £14.1m)

### Operating cashflow
**£13.0m**
(2019: £14.4m)

### Headcount
**1,043**
(2019: 766)

Group Financial Review
continued

## Gross profit and margin

Statutory gross profit for the year was £31.5m, an increase of 31.5% on the £23.9m in the prior year.

Statutory gross margin was 45.7% (2019: 48.9%).

Statutory gross profit includes royalty income of £3.2m (2019: £1.3m). In previous years, royalty income flowed entirely through to gross profit. In the year ended 31 December 2020, we recognised royalties on eight games and, for the first time, we incurred costs to generate these royalties, including some of the amounts previously disclosed as investment in co-funded games.

Following the acquisition of Pipeworks, we have also taken the opportunity to analyse the costs that we classify as direct in calculating gross profit. We have made some changes, primarily to Sumo Digital in respect of facilities charges, studio management costs and bonus costs. The effect of these classification changes has not been material in either 2019 or 2020.

With the expected evolution of royalty income referred to above, we now consider the appropriate alternative performance measure for gross profit and gross margin to be the statutory figures adjusted for the net investment in co-funded games and, for Sumo Digital, amounts in respect of Video Games Tax Relief ("VGTR") and with no adjustment in respect of royalty income. We adjust for VGTR because whether Sumo retains the VGTR or not has an impact on the level of development fees that we charge on a project, and hence it is something of a proxy for revenue. There is no equivalent of VGTR for Pipeworks in the state of Oregon in the US.

For the year ended 31 December 2020, the Adjusted Gross Profit and Adjusted Gross Margin for the Group were £31.7m (2019: £25.2m) and 41.8% (2019: 44.8%). The figures for 2020 include Pipeworks, following the completion of its acquisition in mid-October. The gross margin for Pipeworks is lower than that at Sumo Digital principally because Pipeworks has higher employment costs and uses more lower margin external contractors. The underlying gross profit per direct head is at least in line with Sumo Digital.

The underlying adjusted gross margin remains strong at 43.2%. (2019: 44.8%). As reported in the announcement of the unaudited half year results on 30 September 2020, the gross margin in Sumo Digital was impacted by the cost expensed on Snake Pass 2 of £0.9m in the first half of 2020 and the higher than usual holiday pay accrual, as a result of the pandemic. This holiday pay accrual reduced significantly from that at 30 June 2020 and the average unused holiday entitlement outstanding in Sumo Digital at 31 December 2020 was 2.5 days per person which is approximately 1.5 days higher than usual. The post acquisition inclusion of Pipeworks has a circa one percentage point impact on the gross margin.

## Operating expenses

Operating expenses were £30.1m (2019: £16.4m). Included within operating expenses were amortisation and depreciation of £2.1m and £3.5m respectively (2019: £0.8m and £2.2m). The depreciation charge of £3.5m (2019: £2.2m) includes £1.4m (2019: £0.9m), relating to the right of use asset relating to property leases under IFRS 16.

In 2020 operating expenses include a charge of £2.7m, as a fair value loss on contingent consideration which may be payable for the acquisition of Pipeworks.

This is a non-cash charge, arising as a result of Sumo Group's share price performance in the period from the completion of the acquisition to the financial year end and foreign exchange rate movements.

There was a non-cash charge of £5.0m (2019: £2.7m) to reflect the cost of the Sumo Group plc Long Term Incentive Plan ("LTIP") and the Sumo Group plc Share Incentive Plan (the "SIP").

If amortisation, depreciation, the share-based payment charge, exceptional items, the fair value loss on contingent consideration and unrealised gains on foreign currency derivative contracts are excluded and the operating lease costs capitalised under IFRS 16 are deducted, operating expenses increased by £4.1m from 2019 to £12.3m.

## Adjusted EBITDA and margin

As set out in Note 28, Adjusted EBITDA is a non-GAAP metric used by management and is not an IFRS disclosure. It is defined as statutory operating profit adding back amortisation, depreciation, share-based payment charge, investment in co-funded games expensed, exceptional items, the fair value loss on contingent consideration less the operating lease costs capitalised under IFRS 16 and foreign currency derivative contracts.

Adjusted EBITDA margin was 23.9% (2019: 28.7%). The decline in Adjusted EBITDA margin is largely driven by the reduction in gross margin, which is explained above.

The financial results for 2020 were, as expected, weighted towards the second half of the year. This was flagged in our Final Results 2019 announcement on 21 April 2020 and our Half Yearly results announced on 30 September 2020. We expect the financial results for 2021 also to be weighted towards the second half of the year.

**£16.5m**
Adjusted EBITDA

## Profit before taxation

The statutory profit before taxation was £0.9m (2019: £7.4m). Included in charges for 2020 is an amount of £7.3m arising on the acquisition of Pipeworks, consisting of the £2.7m fair value loss on contingent consideration, £1.7m of amortisation of customer contracts and customer relationships and £2.9m of transactions costs on that acquisition. In addition, the statutory profit is stated after charging exceptional items other than the costs incurred on the acquisition of Pipeworks of £1.2m (2019: £0.5m) and the share-based payment charge of £5.0m (2019: £2.7m) and the unrealised gain on foreign currency derivative contracts of £1.0m.

## Taxation

The Corporation Tax credit for the year was £0.8m (2019: credit of £0.1m).

## Earnings per share

The basic and diluted earnings per share for 2020 were 1.08p and 1.01p respectively (2019: 5.19p and 5.07p respectively).

The adjusted basic earnings per share was 7.93p (2019: 6.99p) and the adjusted diluted earnings per share was 6.48p (2019: 6.46p). Further details, including the basis of calculating the number of shares which is different to the statutory basis, are set out in Note 28.

## Client concentration

During the year, two major clients individually accounted for at least 10% of total revenues (2019: four clients). In aggregate, these two clients accounted for 39.7% of total revenue in 2020, compared to the four clients in 2019 accounting for 74.3% of total revenue.

The Group worked on 11 projects for the top three clients who collectively accounted for 48% of total revenue (2019: 7 projects and 64% of total revenue). These figures for 2020 reflect the post-acquisition performance of Pipeworks.

## Video Games Tax Relief ("VGTR")

Sumo Digital continues to claim and receive significant amounts under VGTR. We include VGTR within our direct costs and accordingly our gross profit and gross margin reflect these amounts. We believe this is the appropriate treatment of these credits, as gross margin is best considered after taking account of the effect of VGTR. The amounts included for 2020 and 2019 are £6.9m and £7.4m respectively.

The evidence continues to support the view that VGTR is a key catalyst in enabling job creation and investment in the UK and continues to have broad political support. It is interesting to note the effectiveness of the VGTR regime in promoting a sector which has proved resilient and has continued to grow through the COVID-19 pandemic.

## Treatment of acquisition costs and exceptional items

We completed the acquisition of Pipeworks in October 2020, paying initial consideration of $59.5m in a mixture of cash and Sumo shares, with additional consideration calculated at the time of acquisition at up to $40m payable based on the performance of Pipeworks in the years to 31 December 2020 and 31 December 2021. This additional consideration will be settled partly in cash with the balance being settled in Sumo Group shares. The fair value of the consideration in accounting terms was £80.2m, comprising cash of £26.2m (£25.0m net of cash acquired), Sumo shares issued of £25.5m and additional earnout consideration with a fair value of £28.5m. This fair value takes into account movements in the share price, which impact the shares component of the consideration, as well as the movement in the sterling to dollar exchange rate. Acquisition related costs, amounting to £2.9m, were recognised as expenses. The intangible assets arising on the acquisition amounted to £83.3m, which includes goodwill of £61.8m, £13.4m in respect of customer relationships, £2.8m in respect of customer contracts, £4.8m in respect of trademarks and £0.5m in respect of IP. The intangible assets other than goodwill will be amortised and will result in a significant amortisation charge each year for several years.

Group Financial Review
continued

The total consideration for the acquisition of Lab42 was £0.5m and the consideration net of acquired cash was £0.2m. Acquisition related costs amounting to £0.1m were recognised as expenses.

The exceptional items charged in 2020 of £4.1m consist of professional adviser and other transaction costs, including those incurred on the acquisition of Lab42 and Pipeworks.

## Alternative performance measures

The Board believes that it is helpful to include alternative performance measures, which exclude certain non-cash charges and are adjusted for the matters referred to above to present the underlying results of the Group. These measures are reconciled to the income statement in Note 28.

## Cash flow

The net cash generated from operating activities for the year was £13.0m (2019: £14.4m). The net cash balances at 31 December 2020 were £6.8m (31 December 2019: £12.9m, and 30 June 2020: £15.2m). The year end net cash balances were significantly ahead of management expectations, due to a number of timing effects which will reverse during 2021. These include a substantial milestone receipt and payments in respect of the Pipeworks acquisition and capital expenditure.

The Group has a £30m revolving credit facility agreement with Clydesdale Bank plc. The facility was extended from £13m to £30m on 16 October 2020 to support the enlarged Group's financial liquidity position, post the acquisition of Pipeworks. Interest is payable on amounts drawn down at the rate of one and a half to two percent above LIBOR and the agreement runs to 30 November 2022.

At 31 December 2020, the facility was drawn US$5.5m. On 24 March 2020, as part of the mitigation actions taken for COVID-19, the Group drew down £10m from this facility. This amount was repaid on 30 June 2020.

On 16 July 2020, we raised approximately £13.1m of net proceeds from the equity placing of 7,588,500 shares.

Capital expenditure on tangible assets in the year was £4.2m (2019: £3.7m), of which £2.1m was on leasehold improvements and fixtures and fittings and £2.0m was on IT hardware. A further £1.4m was spent on the purchase of intangible assets (2019: £0.8m), of which £0.2m related to software and £1.2m was on intellectual property on Own-IP games.

The cash cost, net of cash acquired and excluding transaction costs, of the acquisitions of Pipeworks and Lab42 were £25.0m and £0.2m respectively.

Deferred consideration of £0.1m was also paid to the vendors of Red Kite Games.

The net finance charge for the year was £0.5m (2019: £0.1m). The finance cost consists of IFRS 16 lease interest of £0.2m (2019: £0.1m), bank and other interest of £0.1m (2019: £0.1m) and the unwind of interest on contingent consideration £0.1m.

## Balance sheet

Goodwill and other intangibles at 31 December 2020 were £102.2m. This is an increase of £78.2m from 31 December 2019 and consists mainly of the increase in goodwill and other intangibles arising from the acquisition of Pipeworks.

Current assets were £41.8m (31 December 2019: £37.3m). Trade and other receivables were £31.0m an increase of £7.3m from the figure of £23.7m at 31 December 2019 and trade and other payables were £21.0m (31 December 2019: £14.2m).

As at 31 December 2020 the net working capital position (excluding the IFRS 16 lease liability due within one year of £1.4m) was £11.4m, up from £10.2m at 31 December 2019.

## Foreign currency

During the year, the Group generated US dollar denominated revenue of $15.4m including $8.1m of revenue for Pipeworks in the period since acquisition.

## Dividend

In line with the strategy set out at the time of the flotation, the Directors intend to reinvest a significant portion of the Group's earnings to facilitate plans for future growth. Accordingly, the Directors do not propose a dividend at the present time but it remains the Board's intention, should the Group generate a sustained level of distributable profits, to consider a dividend policy in future years.

## Share issues and options

During the year, 16,005 shares in aggregate were issued under the Sumo Group plc Share Incentive Plan (the "SIP"). A further 40,000 shares were issued following the exercise of options.

As at 31 December 2020, options were granted or remain outstanding under the LTIP over an aggregate of 10,081,153 shares. As previously reported, 4,618,735 shares were issued on 9 March 2018 to be held in order to satisfy the element of the proposed LTIP awards which are held under a joint ownership arrangement. Further options were outstanding over 410,000 shares and there were warrants over 1,450,000 shares.

On 31 January 2020, being the first anniversary of completion of the acquisition of Red Kite Games, 1,162,791 shares were issued to the vendors of that business.

On 16 July 2020, we raised approximately £13.1m of net cash proceeds from the placing of 7,588,500 shares.

On 15 October 2020, 9,893,940 shares were issued in part satisfaction of the initial consideration for the acquisition of Pipeworks.

Since 31 December 2020, 4,878 shares have been issued to date under the terms of the SIP and, on 27 January 2020, 1,450,000 shares were issued upon the exercise of the warrants referred to above.

## Post balance sheet event

Following the year end, on 27 January 2021, The Group's joint brokers and NOMAD, Zeus Capital, exercised warrants to subscribe for 1,450,000 shares for £1 each, generating proceeds of £1,450,000 for the Group.

On 1 February 2021, we announced the strategic acquisition of PixelAnt Games, based in Wroclaw, Poland for an initial cash consideration of £250,000. A further amount may be payable, in Sumo Group shares, depending on the EBITDA achieved in the two years to 31 March 2023. PixelAnt was founded in July 2020 and has a team of 13 developers, currently working entirely on Sumo Digital projects. The strategy is to expand the studio's headcount rapidly, accessing the growing pool of high-quality developers in the Polish market and focus on winning third party contracts, while continuing to work on Sumo Digital projects. The PixelAnt team will also work on Own-IP opportunities.

**David Wilton**
Chief Financial Officer

The Group performed ahead of market expectations

# Section 172 statement

The following disclosure describes how the Directors have had regard to the matters set out in section 172(1) (a) to (f) of the Companies Act 2006 and forms the Directors' statement required under section 414CZA of that Act.

| | Why it is important to engage |
|---|---|
| **Investors**<br>Our major shareholders are listed on page 64 of this Annual Report and on our website. | Continued access to capital is vital to the long-term success of our business.<br>We create value for shareholders by generating strong and sustainable results that translate into growth in the Company's share price.<br>We are seeking to attract an investor base that is interested in a long-term holding in the Company. |
| **Our people**<br>We now total 1084 people, predominantly based in the UK, but also in Pune, India, Vancouver, Canada and Eugene, USA. | Our success is significantly dependent on and driven by the talent and commitment of our people.<br>Sumo Group must be attractive to new talent and provide an environment in which everyone is supported to succeed and that promotes their well-being.<br>Recruiting and retaining the best talent is a source of sustainable advantage in our industry. |
| **Clients**<br>Our clients include many of the world's most successful publishers of video games and game platform owners, as well as in other sectors such as film and product design. | Clients entrust us with their intellectual property and to bring their visions to life. Their business models, games and hardware are continuously developing. We must stay current and evolve alongside this fast-moving market, to retain our position as a long- term partner for our clients. |
| **Suppliers**<br>We have a relatively small number of suppliers, including those who provide commodity items such as computer hardware and utilities. In addition, we require licences to be able to carry out development work on video game platforms (such as PlayStation and Xbox).<br>We work with a number of organisations that provide us with distributed development capabilities to support and supplement our in-house resources. | Our suppliers are important, enabling us to provide a high quality of service to our clients.<br>We must work closely with game platform owners to maintain our licences to develop on their platforms. |


| How management and/or Directors engaged | The key topics of engagement and the feedback obtained | Impact of the engagement including any actions taken |
|---|---|---|
| Our programme for investor engagement is detailed page 49 of our Corporate Governance Statement but during the period included:<br>• frequent one-on-one investor calls with the CEO and CFO;<br>• several institutional investor conferences and presentations. | Our engagement related mainly to the areas of Company strategy and performance, as well as the dynamics of the video games industry.<br>During 2020, specific discussions included the Group's response to the COVID-19 pandemic and investors' views on ESG. | The feedback received is reported to the Board as described on page 46 and was taken into account in discussions on strategy and the approach to ESG approved by the Board during the year. Our approach to ESG is set out on pages 38-40. |
| We discuss our workforce engagement activities on page 46.<br>These take place at all levels across the business, using formal and less formal means, from our annual group-wide Employee Engagement Survey to daily individual project team catch-ups. | During 2020, we used the insights gained from the Best Companies B'Heard Survey, performed in 2019, to inform our workforce engagement activity, although the COVID-19 pandemic was naturally the primary focus from March 2020 onwards.<br>As well as regular communication on the Group's response to the pandemic and regular checks on physical and mental well-being, we carried out an all-employee survey to ascertain attitudes to post-COVID working.<br>The Group's Mission, Vision and Values were refreshed and communicated throughout the organisation.<br>We again used the Best Companies Survey to obtain feedback from our people and we were very pleased to achieve a 3 Star rating | An intranet and learning and development portal was launched in 2020 and this has been integral in enabling connectivity between our people and facilitating the sharing of resources to support our people during the pandemic.<br>The feedback received will be reflected in greater flexibility once it is possible to return to working in our studios.<br>Significant improvements to both our holiday and flexitime policies to ensure greater focus on providing a better work-life balance for all employees were implemented based on the 2019 survey and other direct feedback. |
| Many individuals across the Group are in regular contact with existing and potential new clients. This happens as a matter of course, as we work on specific projects. In addition to this, our teams meet and engage with clients regularly by responding to requests for proposals and whilst pitching our ideas. | Every client is different, but all focus on the quality and flexibility of the services that we provide. | In 2020 we prepared a detailed and comprehensive pitch deck for clients and potential clients that was extensively used in virtual meetings to inform them of the significant development and growth of the Group. |
| Our technology and development teams maintain consistent dialogue with platform owners.<br>Our distributed development team identify and qualify suitable organisations. We then agree suitable working arrangements and legal terms with these suppliers. | These include general business relationship matters, technology developments and ways of working. | We are establishing a smaller group of premium suppliers of development services with whom we have strong relationships. |

## Community

We operate in a number of communities around the UK and in India, Poland, Canada and the USA and aim to have a positive impact on those communities.

**Why it is important to engage**

It is increasingly important to all our stakeholders that we support local communities and provide opportunities to individuals within them.

| How management and/or Directors engaged | The key topics of engagement and the feedback obtained | Impact of the engagement including any actions taken |
|---|---|---|
| We launched a schools engagement programme in Sheffield in 2019, which was due to be expanded to Brighton in 2020, but these plans are on hold due to the COVID-19 pandemic.<br>During 2021 we will endeavour to engage through "virtual" classroom interventions, but this will depend on the capacity of schools to accommodate this while dealing with the pandemic.<br>The Group has launched its own "Sumo Digital Academy" with the aim of increasing diversity by recruiting talented individuals from different backgrounds and training them in game development within the organisation. The Academy will also lead an industry group in creating a post-graduate game programming apprenticeship. To help shape the apprenticeship, Sumo Group has employed four trainee programmer interns who will go through a 12-month training process.<br>We have a long-standing relationship with Special Effect, a UK charity which helps physically disabled people play video games and works with developers to create specialised game control devices and improving game accessibility.<br>Atomhawk has partnerships and/or regular engagement with local schools and higher education institutions, in the UK and Canada. | Engaging with young students gives the business an insight into how the video games industry is viewed by students and their teachers.<br>Directly engaging with potential recruits from atypical backgrounds will increase our understanding of the challenges they face and how we can help overcome them. | One of the students subsequently won the 2020 BAFTA Game Concept Award in his age category for the game he created as part of the programme, having been encouraged by the Company to enter. |

## The environment

There is increasing interest from all stakeholder groups of the environmental impact of businesses and we understand the increasing importance that sustainable business practices will play in our ability to grow successfully and maintain profitability over the long term.

While our activities are largely office-based and do not involve any energy-intensive processes or generate significant waste, the business can take, and is taking, actions to reduce its environmental impact. Our first energy and carbon report appears on page 40, along with the actions we intend to take to reduce the Group's carbon footprint.

## Principal decisions

Many of the principal decisions taken during the year related to the COVID-19 pandemic and specifically to the health and welfare of the Group's employees and the ability to continue providing services to clients.

The Group responded quickly and efficiently to the first national lockdown, moving all our people to working from home for their safety and, at the same time, having dialogue with clients to gain their agreement to their projects continuing in this way. During the remainder of the year, there was significant focus on the well-being of our people, and this was discussed at each meeting of the Board.

In March 2020 the Board approved a drawdown of £10 million on the Group's revolving credit facility as part of its COVID-19 mitigation strategy and this was subsequently repaid in June 2020. In view of its success in managing the impacts of the pandemic, it was agreed that the Company would not furlough any of its people or take advantage of any emergency funding provided by the UK Government.

In July 2020, the Company carried out a placing to raise £13.1 million net of costs to support the Group's acquisition strategy, with the support of major shareholders.

In May the Company acquired Lab42 Limited to expand development capacity in the talent hot spot of Leamington Spa and, in October 2020, purchased Pipeworks Inc., adding further valuable experienced colleagues and providing a significant presence on the West Coast of the US enabling better access and support to existing and potential new clients based in North America. Both acquisitions enhance the Group's offering to clients and provide new and expanded opportunities for its people, as well as adding to the financial performance of the Group to the benefit of investors.

# Environmental, Social and Governance ("ESG")

At Sumo Group, we are very conscious of our ongoing responsibility to stakeholders and understand the increasing importance that sustainable business practices will play in our ability to grow successfully and maintain profitability over the long term.

ESG continues to grow in importance and a number of our existing and potential investors flagged this in meetings. It is not just investors, but also our people and clients, who want to work for and with responsible businesses.

During 2020, the Sumo Group Board reviewed the Group's approach to ESG agreed in March, to reflect the feedback subsequently gained from investors and our people so that priority is given to those areas where the organisation can have the greatest impact. As a people business, this is in the "social" area of ESG.

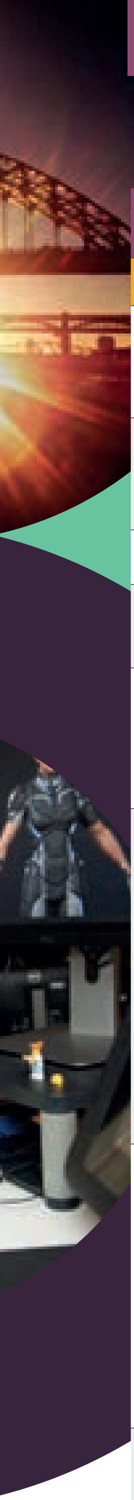
To date we have established a Diversity Focus Group and have introduced Learning and Development Days and gathered baseline information on diversity.

The Board also approved the targets for 2021 summarised below. Progress on these will be reported on the Group website and in the next Annual Report and Accounts.

As part of our disclosure on environmental matters, our first Streamlined Energy and Carbon Report is included later in this section and forms the baseline for our initiatives to reduce the Group's footprint.

## Environment

| Target | Purpose/benefit |
|---|---|
| Complete and publish first Streamlined Energy and Carbon Report | Measuring our consumption and emissions will provide a baseline against which we will target a reduction in our carbon footprint. |
| Achieve a 5% reduction in net CO2 emissions across the Group against the 2020 baseline | Reducing emissions benefits the environment and is likely to achieve cost savings through reduced energy consumption. |
| Ensure all electricity contracts that we control are for electricity from renewable sources, or are changed to renewables on expiry | Consuming energy from renewable sources will reduce our environmental impact. |
| Assess the ISO14001:2015 environmental management standard to determine suitability for implementation | This will enable us to decide if implementing the standard will benefit the Group's environment targets and improvements. |



## Social

| Target | Purpose/benefit |
|---|---|
| Implement a flexible benefits programme and increase reward via a target-based Group bonus scheme for our people | Recruiting and retaining talented people in a highly competitive industry is essential to the success of the Group. |
| Increase flexible working options and support remote working during and post-COVID (subject to client requirements) | For many of our people, remote working/working from home provides flexibility that contributes to work/life balance and enables them to meet other commitments. |
| Obtain TIGA Star accreditation | This accreditation indicates a third-party assessed standard of care for our people. |
| Show year on year improvement in gender diversity in recruitment and promotion | We want to improve diversity in our workforce and women are currently under-represented at Sumo Group and in the video games industry in general. |
| Participate in the 30% Club mentoring programme – nine Sumo Group mentors and nine Sumo Group mentees to take part for the 2020/21 cohort | All the mentees are talented women who we believe can benefit from a mentor outside the Group. The mentors have agreed to provide their time to support women in other organisations. |
| Continue to run Ahead Partnership schools outreach programme, which introduces young students to the opportunities in the industry | This programme was highly successful in 2019, resulting in approximately 50 girls to consider a career in video games when they had not previously done so. In addition, one participant received a BAFTA award for his game design.<br>The programme<br>During the 2020/21 academic year we will endeavour to engage through "virtual" classrooms, but this will depend on the capacity of schools to accommodate this during the pandemic.<br>In 2020 we successfully maintained our ongoing relationship with Sheffield College through online activities, as well as starting a new collaboration with the Computer Science students at Sheffield UTC Academy. |
| Sumo Digital Academy - Release "PlayBuffer": a free programming framework for coding simple 2D games in C++. This will provide schools with an accessible first step in game programming using the industry standard programming language and colleges and universities with a practical platform for teaching the principles of C++ using games. | The aim is to encourage more young people, from more diverse backgrounds to develop highly employable technical programming skills. |
| Charity budget and committee established | We support a number of charities and have formalised a budget and process to do so. |

## Governance

| Target | Purpose/benefit |
|---|---|
| Maintain full compliance with QCA Code | This is the governance code adopted by Sumo Group plc and to which we adhere. |
| Complete ISO27001 accreditation | This is the international standard that lays out the specifications for implementing an information security management system. Security of our and our clients' information is of great importance to the Group. |
| Modern Slavery Act reporting | Forced labour has no place in our supply chain and we report on the actions we take to monitor this annually on the Group's website. |
| Continue whistleblowing hotline | This is made available to employees world-wide so that they have a means to report concerns to a third party (on an anonymous basis if preferred). |

Environmental, Social and Governance ("ESG") continued

## Energy and Carbon Report

| KPI | UOM | 2020 (baseline) |
|---|---|---|
| Gas burned onsite | $kgCO_2e$ | 13,727.27 |
| Electricity used onsite | $kgCO_2e$ | 334,452.78 |
| Fuel used by company cars | $kgCO_2e$ | 10,117.32 |
| Fuel used by grey fleet | $kgCO_2e$ | 6,778.78 |
| **Total emissions** | **$kgCO_2e$** | **365,076.15** |

| Intensity Metrics | UOM | 2020 (baseline) |
|---|---|---|
| Average UK Employees[5] | Heads | 691 |
| Gross Floor Area at 31/12/2020 | sqft | 94,904 |
| $kgCO_2e$ per UK head | $kgCO_2e$ | 528.71 |
| $kgCO_2e$ per square foot | $kgCO_2e$ | 3.85 |

[5] Employees per UK location taken as an average over Jan-Dec 2020 for each site

## Calculating our performance

We have calculated our energy consumption using invoices provided by our suppliers, where these have been available. We are reporting emissions for UK CO2 equivalent emissions only.

We have excluded residential properties that the Group leases for the purpose of assisting employees in relocating to the UK. These account for 2% of our gross UK electricity consumption and the electricity consumed is used for domestic lighting, heating and cooking when the employee is not at work, therefore we consider this to be immaterial.

In calculating greenhouse gas ("GHG") emissions, we have used the UK Government GHG Conversion Factors for Company Reporting for 2020. We have also used the Government's weekly road fuel prices for 2020, as of 1 March 2021, to estimate fuel consumption from credit card claims. We have used Gross Calorific Values for gas burned onsite.

## Accuracy

Approximately 19% of our total electricity use in 2020 has been estimated to account for former sites where we do not have access to consumption data because it was included in our office service charges. UK staff of the Group have worked from home since March 2020 therefore we believe that the estimate that we have reported is higher than our actual consumption for the period.

As at the date of this report, we have been unable to obtain consumption information from some energy suppliers. The equivalent report for 2021 will show restated amounts for 2020 if this information has been received.

## Efficiency actions taken

During 2020 we have completed three significant refurbishments of studios. We replaced the existing lighting in these studios with high efficiency LED lighting. In two of these studios, where it was viable, we installed programmable lighting that can be dimmed or turned off in small zones in order to reduce wasted lighting during the daytime.

# Risks and Uncertainties

## Effectively managing our risks

As part of the Group's structured risk management process, the Board regularly considers those risks that might adversely affect performance of the Group and monitors mitigating actions being taken. These risks were considered again by the Board in preparing this Annual Report.

The items referred to below are regarded as the key risks for the Group. These are not the only risks that might affect the Group's performance, but the Board believes that they are currently the most significant and specific to the Group's business.

The risk relating to royalties and co-development/investment models has been removed as the Board believes the likelihood of negative impact is very low.

## Strategic Risks

**Change in level of risk from prior year**

### Dependence on a concentrated client base

In the year ended 31 December 2019, the Group had four clients who each accounted for at least 10 percent of total revenues. For the year ended 31 December 2020, this had declined to two clients who each accounted for more than 10% of total revenues. In addition, the Group's increased size, through organic growth and the significant acquisition of Pipeworks, and expanded group of active clients mean that the impact of the loss of any one client will have a lower impact on the Group's financial results. The Group remains reliant on the long-term commercial success of its clients. The performance of such clients will have a significant bearing on the success of the Group in terms of the requirement for future games to be developed and released, however their performance cannot be guaranteed. Underperformance of the Group's clients could have a material adverse effect on the Group's business, operations, revenues or prospects.

#### Mitigating activities

The Group mitigates such risks through having strong relationships with some of the world's largest publishers who have a strong track record of launching successful games and by attracting new customers. As mentioned above, 2020 has also seen the introduction of new clients to our customer base.

The milestone delivery structure of our long-term contracts allows us to identify and address any potential issues with clients promptly during the course of the contract, reducing the risk of a breakdown in relationships.

### Quality risk

The Group's order book is driven by its reputation for high quality work that meets or exceeds client expectations. A drop in quality could lead to an inability to obtain future work on major projects. It could also negatively impact motivation of our people.

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#### Mitigating activities

The Group has in place a number of systems and reviews that constantly monitor the quality and delivery of work to the requirements of clients.

### Impact of Brexit

There remain uncertainties in relation to the detailed consequences of the United Kingdom's exit from the European Union, in particular as to what the impact will be on the fiscal, monetary and regulatory landscape in the UK, including *inter alia*, the UK's tax system, the conduct of cross-border business and export and import tariffs. There is also uncertainty in relation to how, when and to what extent these developments will impact on the economy in the UK and the future growth of its various industries and on levels of investor activity and confidence, on market performance and on exchange rates. Although it is not possible to predict fully the effects of the UK's exit from the European Union, any of these risks could have a material adverse impact on the financial condition, profitability and share price of the Group.

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#### Mitigating activities

The senior leadership team has compiled and maintained a Brexit report that outlines the Group's ongoing risk assessment. External consultation has been sought where appropriate. The Board has received regular updates of the report with progress against the plan of action and any changes to the perceived risks.

The Group has updated its hedging policy to ensure that sufficient hedging arrangements are in place to reduce uncertainty and currency risk in our foreign currency contracts to an acceptable level.

Risks and Uncertainties
continued

# Operational Risks

Change in level of risk from prior year

## COVID-19/pandemics

At the time of writing (March 2021) the COVID-19 pandemic persists, although the vaccination programme in the UK means that restrictions are gradually being eased. In the US a federal seven-point plan has been announced to attempt to reduce cases of the disease however individual state approaches to the easing or strengthening of restrictions varies. Canada has seen a recent national decline in COVID-19 cases although restrictions on movement and gatherings remain in place at the federal and provincial level. India has seen approximately 15 million people vaccinated although infection levels remain high and state restrictions, including those in Maharashtra, remain strict.

During 2020 and the early months of 2021 Sumo's relatively low risk, high visibility business model and transition to home-working proved robust to the challenges presented by COVID-19, but we believe that the COVID-19 pandemic continues to pose the following risks:

### Risk of loss of efficiency

- Lower productivity at home due to poorer connectivity, less communication between team members, possible family distractions and the impact of the long period of isolation from work colleagues
- The demotivational effect of general anxiety and concern

### Risk of loss of projected capacity

- Team members being incapacitated or having to care for other family members
- The slow-down in recruitment
- We may also lose some capacity when we revert back to studio working which is likely to be on a phased basis
- Managing the return to studio working with a mix of individuals who have and have not been vaccinated
- Competitors offering home-working as part of recruitment

### Risk in winning and mobilising new projects

- Cancelled trade events and no face to face meetings, although this has been mitigated by the significant level of contracted and near contracted revenue in place for 2021

### Risk in IT security due to:

- A possible breach of IT security through remote working, although stringent steps have been taken to mitigate this risk
- The IT team being less able to respond promptly to regular hardware and software problems as efficiently due to remote nature of working
- Loss of capacity in the IT team due to illness

### Risk of clients withdrawing support for home-working

### Mitigating activities

The Group transitioned to working from home in March 2020 and has continued to do so since then. Throughout this time contract milestones and game launches have continued to be met and no significant issues have been experienced. Efficiency levels have remained at, or very close to, those experienced during in-studio working.

Significant focus has been given to supporting the Group's employees with both their physical and mental health needs during the pandemic, particularly in the lengthy periods of lock-down.

When limited access to studios was allowed, COVID-secure bubbles were created to enable very small numbers of colleagues to be present to accomplish essential tasks or assist with their well-being.

The Group's clients have been very supportive and collaborative in adapting to this new way of working.

Despite the cancellation or postponement of major trade events and the severe travel restrictions we and our clients have had in place to protect the health of our people, we are continuing to see business development opportunities on major new projects with both existing and new clients. We are actively mitigating the loss of face time through the increased use of telephony and video conferencing.

There remains a risk that other pandemics occur in future. If so, we believe the effects and mitigating actions are likely to be similar to those for COVID-19 and that the Group's experience in dealing with these during COVID would be valuable in doing so again.

# Operational Risks – continued

Change in level of risk from prior year

## Ability to recruit and retain skilled personnel

The Group's operational and financial performance is dependent upon its ability to attract and retain effective personnel.

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### Mitigating activities

We monitor our retention and recruitment levels on a weekly basis in line with the Group's growth targets to ensure we take swift action when targets are not met.

An annual review of remuneration packages is conducted to ensure that we remain competitive within the industry. The Group has introduced an employee share plan to align the interests of the broader workforce with those of shareholders. During the year, a revised benefits package with flexibility for colleagues to choose those most important to themselves was defined and communicated. This will be fully implemented during 2021.

Formal feedback channels for employees include the annual satisfaction survey, appraisal programme and during the induction and exit processes. We use the results to make changes to the way we work, improving the level of employee engagement and satisfaction.

The Group has implemented a process to engage with specialist contracting organisations to provide out-sourced resources that provide flexibility to meet demand from the Group's clients.

Notwithstanding these actions, the combination of the COVID-19 pandemic, Brexit and the highly competitive situation within the video games industry means that we believe this risk has remained the same.

## IT Security

A breach of IT security, unauthorised copying or software piracy could result in loss of business and reputational damage for the Group, as well as associated negative financial impacts to revenue and costs from unauthorised copying of the intellectual property of clients.

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Unauthorised copying of the Group's own intellectual property games, or games produced by the Group for which the Group may be entitled to revenue-based royalties, could have an adverse effect on the Group's ability to generate revenues and profits. Complete protection cannot be guaranteed, and an IT security breach could cause significant disruption to the Group's operations.

### Mitigating activities

Our project work is protected by copy protection technology intended to prevent piracy.

We conduct robust testing on our systems and software, including penetration testing by external consultants. The implementation of action plans that arise from the results of testing is monitored by the Board.

Disaster recovery plans have been developed to ensure the business can recover from any interruptions with minimal impact.

## Stability of IT systems

Due to the Group's high dependence on its IT systems and infrastructure, any failure, disruption or damage to the network or systems could lead to significant business interruption. Disruption and inability to conduct "business as usual" could lead to reputational damage, financial losses and the inability of the Group to generate revenues going forward.

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### Mitigating activities

We have an experienced and dedicated IT team, and use external consultants where we need to, ensuring we have a good balance of skills and experience in the team.

Back-up servers are used, and server disaster recovery plans are in place to provide data resilience. Infrastructure is regularly monitored and updated by the IT team.

Business continuity plans are in place for our main operations, including plans being developed at a Studio and project level.

Due to the continuous investment and improvement in our systems, processes and capability, we believe this risk has reduced.

Risks and Uncertainties
continued

## Operational Risks – continued

Change in level of risk from prior year

### Publishing

The Group has recently announced the creation of a publishing division. This will facilitate the self-publishing of Own-IP and will also lead to opportunities to publish games created by other developers.

This brings with it the risk of investment being made in a game that proves not to be successful. Dealing directly with consumers adds new legal requirements for the Group and increases the importance of compliance with data privacy laws.

NEW

**Mitigating activities**

The Group has recruited individuals with considerable publishing experience to operate the new division, with strong track records of commercial success.

The legal framework within which the division will operate has been carefully established with input from specialist professional advisers.

## Financial Risks

Change in level of risk from prior year

### Development work prior to contract

As part of business development activity, work is sometimes completed in advance of a formal contract being in place with the customer. While this is common practice in the industry, it creates the risk that costs attributable to the development work cannot be recovered if the contract does not materialise or the scope of the contract renders some of the work obsolete. This would have an adverse impact on profit generation for the Group.

**Mitigating activities**

The Group has a robust contract approval process. The Group also has good relationships with publishers and a strong track record of contracts moving into the production phase.

We believe this risk has decreased as the values involved represent a smaller proportion of the Group's overall revenues.

The Strategic Report, which includes the Chairman's statement, the Chief Executive's review, the Group's business model and strategy, the Group financial review and the Principal Risks and Uncertainties, was approved by the Board and signed on its behalf by:

**Carl Cavers**
30 March 2021

# Introduction to governance

The Board remains committed to effective corporate governance as the basis for delivering long-term value growth and for meeting shareholder expectations for proper leadership and oversight of the business.

As the Chairman of the Board, I am responsible for corporate governance within the Group and the Board is committed to maintaining a sound ethical culture that guides our risk management and decision making. We believe that having good corporate governance is the best way to pursue medium to long-term success for Sumo Group plc and our stakeholders. To this end, since our IPO in 2017, we have adopted the code published by the Quoted Companies Alliance (QCA code) as our benchmark for governance matters and believe that we are in full compliance at the date of this report.

My role as Chairman of the Board remains separate to, and independent of, that of the Chief Executive and we both have clearly defined responsibilities. These, along with the terms of reference for all the Committees of the Board, can be found on Investor Relations section of the Sumo Group plc website.

This section of the annual report outlines how we have applied the principles of the QCA code during the year. We will review and update our approach as the Group continues to grow and will update the Corporate Governance statement in the AIM rule 26 section of the Company's website.

Additional information is contained in the Directors' statement in respect of Section 172 of the Companies Act on pages 34 to 37.

**Ian Livingstone**
Chairman

30 March 2021

# Corporate Governance: QCA Code principles

## Principle 1:
## Establish a strategy and business model which promote long-term value for shareholders

Our strategy and business model are discussed in the Chief Executive's review on pages 23 to 28.

The Company provides creative development and co-development services to the video games and entertainment industries, delivering end-to-end visual and development solutions. We work with some of the largest video game producers in the world on long-term, high-value contracts, as well as launching our own, independent games.

Our growth targets will principally be achieved through:

- The organic growth of our contracted development fees model
- Targeted acquisitions aimed at bringing on board talent and intellectual property to grow the Sumo Group.

## Principle 2:
## Seek to understand and meet shareholder needs and expectations

The Group is committed to engaging with our shareholders to ensure that our strategy and business model are understood. The Board believes that the disclosures in this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Executive Directors of the company are in frequent contact with the Company's shareholders and brief the Board on shareholder issues. The COVID-19 pandemic made face to face interaction impossible, but our Chief Executive Officer and Chief Financial Officer participated in a large number of on-line investor conferences and maintained a full programme of calls with investors and potential investors.

The Company's largest shareholder is Perwyn Bidco (UK) Limited. Under the terms of the Relationship Agreement entered into at the time of the Company's admission to AIM, Perwyn has the right for an observer to attend Board meetings.

The Chief Executive Officer and Chief Financial Officer are primarily responsible for contact with our shareholders. To request any meetings or ask questions please contact investors@sumogroupplc.com.

Reports from analysts that refer to the Company or cover the video games sector are circulated to the Board to support their understanding of the views of the investment community.

Zeus and Investec as the Company's joint brokers and Belvedere as financial PR advisers provide both attributable and anonymised feedback directly to the Board from shareholder meetings and events such as the investor day. An update on investor relations activity is provided at every Board meeting and Zeus attend at least one Board meeting each year to provide feedback on market sentiment and regulatory updates.

The Chairman and the other Non-Executive Directors will always make themselves available to meet shareholders. The Annual General Meeting (AGM) is also an opportunity for dialogue between the Directors and our shareholders. At the 2020 AGM, all resolutions proposed by the Board were passed by shareholders.

The business to be conducted at the 2021 AGM is set out in a separate Notice of Annual General Meeting.

## Principle 3:
## Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board recognises that the long-term success of the Group relies on our customers and employees. Engaging with these key stakeholders strengthens our relationships and helps us make better business decisions to deliver our commitments. The Board received regular updates on wider stakeholder engagement feedback and closely monitors and reviews the results of the annual Best Companies Employee Engagement survey.

The Directors' statement under Section 172 of the Companies Act on pages 34 to 37 contains information about engagement with stakeholders in addition to investors, clients and employees.

### Employees

Without our dedicated and skilled employees we would not be able to operate at the level that we do, and as a result we are committed to employee engagement and making changes based on the feedback received to continue to develop Sumo Group as a great place to work.

Employees are given many opportunities to provide feedback through our employee engagement survey, the annual appraisal process and the twice-yearly updates provided following the Group's full and half-year results.

Over the past year we have:

- Continued to promote share plans that allow our employees to become shareholders of the business
- Invested considerable resources in a number of our studios to improve the working environment
- Continued the work of our Diversity Steering Group aimed at increasing diversity within the Company and the wider industry, including carrying out our first Group-wide diversity survey
- Completed our annual employee engagement survey to keep informed on the major issues that our employees want us to change
- Consulted with employees on a revised flexible benefits package.

### Clients

The Group is in regular dialogue with existing and potential clients at all levels in order to understand and respond to their current and future requirements.

## Principle 4:
## Embed effective risk management, considering both opportunities and threats, throughout the organisation

### Risk

As described in the letter from the Chairman of the Audit and Risk Committee on pages 54 to 55 of this Annual Report, the Board is committed to ensuring that risk management is embedded within the business and is part of the way we work.

### Internal control

The Board has ultimate responsibility for the Group's system of internal control and reviewing its effectiveness. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, and not absolute assurance against material misstatement or loss. The Board considers that the internal controls in place are appropriate for the size, complexity and risk profile of the Group. The principle elements of the Group's internal control system include:

- Close management of the day-to-day activities of the Group by the Executive Directors
- Preparation and approval of budgets and regular monitoring of actual performance against budget
- Detailed monthly reporting of performance against budget
- Continually updated profitability and cashflow forecasts to reflect actual performance and revised outlook as the year progresses
- A Group Internal Auditor focusing on risk-based audits and with a direct reporting line to the Chairman of the Audit and Risk Committee
- Strengthened finance function that has implemented additional processes, policies and systems that enhance the financial and operational control environment
- Risk assessments on important areas such as the Criminal Finances Act
- A risk register that is maintained by the Group Internal Auditor and reviewed at least quarterly by the Operating Board and twice yearly by the Audit and Risk Committee
- A treasury policy that is reviewed annually by the Board.

## Principle 5:
## Maintain the board as a well-functioning, balanced team led by the chair

The composition of our Board is detailed on pages 50 to 51 of this Annual Report.

Part of the role of the Board's Nomination Committee is to keep the composition of the Board under review as the Company's business evolves. The Board is satisfied that it has a suitable balance between independence and knowledge of the Company to enable it to discharge its duties and responsibilities effectively. All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational.

During the year, the Board conducted an assessment of its performance and more detail is provided opposite.

Corporate Governance statement
continued

## Principle 6:
## Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

Directors details and biographies are on pages 50 to 51. The Board considers that they have sufficient skills and experience to execute their duties and responsibilities effectively.

As part of the 2018 Board performance assessment, each Board member provided information on their individual skills and experience in areas relevant to the Group's business. This exercise indicated a high level of capability and also provided insight on additional areas that could form part of the specification for any future appointees to the Board. The assessment identified the desirability for additional industry and operational experience on the Board. As a result of this, Paul Porter joined the board as Chief Operating Officer in April 2019.

The Board receives regular and timely information on the Group's operational and financial performance. Relevant information is circulated to the Directors in advance of meetings. All Directors have access to the advice and services of the Company Secretary who is responsible for ensuring that the Board procedures are followed, and that applicable rules and regulations are complied with. All Directors are allowed to obtain independent advice in furtherance of their duties, if necessary, at the Company's expense.

On appointment, Directors new to the Group will receive a full and tailored induction.

## Principle 7:
## Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement

The Board carried out its third performance assessment towards the end of the year. This process was similar to that used in 2019, which was designed by a third-party consultant with considerable experience of Board reviews and tailored to the Group's specific circumstances. It comprised:

- A questionnaire completed by every Board member and the Company Secretary covering Board and Board Committee structure, processes, agendas and priorities. The questions also sought each Board member's assessment of their individual performance and allowed members to give feedback on each other.
- A Board discussion of the outputs of the questionnaire facilitated by the Company Secretary.

The process identified a number of actions that the Board believes will contribute to improving performance, and these will be implemented during 2021 (to the extent not already in place by the end of 2020), including ongoing consideration of the range of experience and skills required by the Board and the potential to use a combination of physical and virtual Board meetings once COVID-19 restrictions allow this.

The actions identified and steps taken as a result of the 2019 assessment were:

- Ensuring greater focus in Board meetings on developments within the video games industry and on the games created by the business – the papers for every Board meeting now include a specific report on industry developments and most meetings have included a demonstration of one or more of the games on which the Group is working
- Facilitate more contact between the Board and the members of the Operating Board – different members of the Operating Board have made presentations at Board meetings during the year
- Continue the work of the Nomination Committee in ensuring that there is robust succession planning in place for senior roles – the Nomination Committee has received updates on the succession planning process and its implementation
- Consider whether the number of Board meetings held each year creates the right balance between governance and strategy setting and operational execution – discussed as part of the assessment process and re-assessed part way through the year, when it was felt that the revised agendas, with the items referred to above, created an appropriate balance.

## Principle 8:
## Promote a corporate culture that is based on ethical values and behaviours

The Board aims to lead by example in this area and do what is in the best interests of the Group. The processes in place by which it makes decisions and that are documented in the terms of reference for its committees; the requirement for regular disclosure of other interests and the Company's share dealing code all require high standards of behaviour.

The Company's employment policies, such as those applying to Whistleblowing and Anti-bribery and Corruption, assist in embedding a culture of ethical behaviour. The Board is also supportive of the community and charitable projects undertaken by the business that are described in the Section 172 statement on pages 34 to 37.

During the year, the Group's Mission, Vision and Values were refreshed, considered and approved by the Board and communicated to everyone in the Group. These are available on the Group's website and its intranet.

## Principle 9:
## Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

The Board currently meets at least eight times each year in accordance with its scheduled meeting calendar. This schedule may be supplemented by additional meetings as and when required. The attendance by each Board member at scheduled meetings is shown in the Board biographies on pages 50 to 51.

The Board and its committees receive appropriate and timely information prior to each meeting; a formal agenda is produced for each meeting, and Board and Committee papers are distributed several days before meetings take place.

The Board makes decisions for the Group through a formal schedule of matters reserved for its decision. Any specific actions arising are agreed by the Board or relevant Committee and then followed up by the Company's management.

### Board Committees

The Board is supported by the Audit and Risk, Nomination and Remuneration committees. Each committee has access to such resources, information and advice as it deems necessary, at the cost of the Company, to enable the committee to discharge its duties.

A detailed report of the composition, responsibilities and key activities of the Audit and Risk Committee is set out in the Audit and Risk Committee Report and for the Remuneration Committee in the Directors' Remuneration Report.

The Nomination Committee is chaired by Ian Livingstone, and its primary purpose is to identify and nominate, for the approval of the Board, candidates to fill board vacancies as and when they arise and to monitor succession planning arrangements for senior roles. The Nomination Committee meets as required, and at least once a year. Michael Sherwin and Andrea Dunstan are the other members of the Nomination Committee. The Committee has terms of reference in place which have been formally approved by the Board.

The Nomination Committee also reviews the structure, size, diversity and composition of the Board and the identification and nomination of new Directors. The Committee will retain external search and selection consultants as appropriate.

### Operating Board

To monitor operational performance across the Group and ensure effective decision-making, an Operating Board has been established. Details of membership of this board is set out in this Annual Report. The Operating Board typically meets shortly before each PLC Board meeting to ensure that executives are able to provide the most up to date information to the PLC Board.

## Principle 10:
## Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

### Communicating to stakeholders

The Board communicates with shareholders through the Annual Report and Accounts, full-year and half-year announcements, the Annual General Meeting (AGM), private investor webinars and one-to-one meetings with large existing or potential new shareholders. A range of corporate information (including all the Company announcements and presentations) is also available to shareholders, investors and the public on our corporate website, www.sumogroupplc.com.

Company performance information is communicated with employees through the intranet newsletter and presentations given after the full and half year results, within the limitations imposed by adherence to the Company's public company disclosure obligations.

# Board of Directors

## Ian Livingstone CBE
Non-Executive Chairman of the Board (71)

**Appointment date:**
November 2017

**Experience:**
45 years in the games industry. Co-founder and former Joint Managing Director of Games Workshop; former Executive Chairman of Eidos plc; former Chairman of Playdemic Ltd.

**External appointments:**
Ian holds non-executive roles with not-for-profit organisations National Citizen Service Trust, Aspirations Academies Trust, Creative England and the Livingstone Foundation. He is a Non-Executive Director of a number of independent video games businesses Midoki, Antstream, Flavourworks, Fusebox, Playmob and The Secret Police. Ian is also a founding partner of Hiro Capital LLP.

**Skills brought to the Board:**
Industry knowledge and experience, strategy

**Sector experience:**
Games industry development and publishing, strategy, acquisitions, business models and funding

**Number of meetings present:**
Board meetings (11), Nomination Committee meetings (1)

## Carl Cavers
Co-founder & Chief Executive Officer (53)

**Appointment date:**
November 2017

**Experience:**
Co-founder of Sumo Digital in 2003, growing the business before a trade sale to Foundation 9. Carl then led a management buy-out with Northedge Capital in 2014, followed by a secondary buy-out with Perwyn in 2016. This was followed by the flotation of Sumo Group plc on AIM in 2017. Carl received TIGA's coveted Most Outstanding Individual Award in 2015 and he holds an honorary doctorate from Sheffield Hallam University.

**External appointments:**
Board member of TIGA

**Skills brought to the Board:**
Business leadership, strategy, M&A, organic growth, client relationships, contracts and negotiations

**Sector experience:**
Over 25 years extensive experience in the video games industry having held senior roles previously at Gremlin Interactive and Infogrames

**Number of meetings present:**
Board meetings (11)

## Andrea Dunstan
Independent Non-Executive Director (61)

**Appointment date:**
September 2018

**Experience:**
Four years as Chief People Officer for Premier Farnell plc until January 2017. Prior to this, Andrea worked as an executive HR Director for numerous quoted companies, including Wincanton plc, AstraZeneca plc and Barclays Bank plc.

**External appointments:**
- Non-Executive Director and chair of Remuneration Committee of Macfarlane Group plc
- Non-Executive Director and chair of Remuneration Committee of TI Fluid Systems plc (up to 12 May 2021)

**Skills brought to the Board:**
HR strategy, organisational development, remuneration

**Sector experience:**
Distribution and logistics, pharmaceuticals, finance

**Number of meetings present:**
Board meetings (11), Remuneration Committee meetings (7), Audit and Risk Committee meetings (3), Nomination Committee meetings (1)

## Michael Sherwin
Independent Non-Executive Director (62)

**Appointment date:**
December 2017

**Experience:**
Nine years as Chief Financial Officer of Vertu Motors plc (until March 2019). Extensive retail, transactional and public market experience, including nine years as Group Finance Director of Games Workshop PLC and three years as a Non-Executive Director of Plusnet plc, an AIM listed internet service provider. Michael qualified as a chartered accountant with Price Waterhouse where he held positions in the UK, Paris and Sydney.

**External appointments:**
Non-Executive Director of Williams Motor Co. (Holdings) Limited

**Skills brought to the Board:**
Financial reporting, corporate governance, investor relations, M&A

**Sector experience:**
Consumer goods, internet service provider, motor vehicle

**Number of meetings present:**
Board meetings (11), Remuneration Committee meetings (7), Audit and Risk Committee meetings (3), Nomination Committee meetings (1)

## Paul Porter
Co-founder & Chief Operating Officer (49)

**Appointment date:**
April 2019

**Experience:**
Paul has over 25 years' experience in developing video games and co-founded Sumo Digital in 2003. He started his career as a self-taught programmer and released his first game in 1991. Prior to founding Sumo Digital, Paul was Studio Head for Infogrames Sheffield and Head of Core Technology at Gremlin Interactive. He was appointed Chief Operating Officer of Sumo Group plc in April 2019. Prior to this he was Managing Director of Sumo Digital.

**External appointments:**
None

**Skills brought to the Board:**
Video games development, business leadership, client relationships and negotiations

**Sector experience:**
Extensive experience in the video games industry

**Number of meetings present:**
Board meetings (11)

## David Wilton
Chief Financial Officer (58)

**Appointment date:**
November 2017

**Experience:**
Big four qualified chartered accountant with more than 30 years post qualification experience as CFO, Non-Executive Director and Consultant after many years in corporate finance, primarily in mid cap M&A with Rothschilds. David has held roles in both plc and private equity backed companies including as Group Finance Director of WYG plc and as Non-Executive Director and Chair of the Audit Committee of Sweett Group plc.

**External appointments:**
None

**Skills brought to the Board:**
Financial management, M&A and investor relations

**Sector experience:**
Broad range with focus on people/ professional services

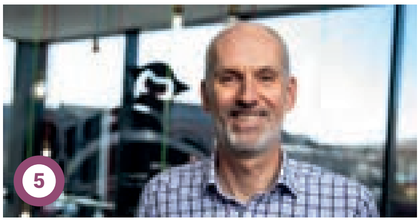
**Number of meetings present:**
Board meetings (11)

# Operating Board

**Carl Cavers**
Co-founder & Chief Executive Officer

**Paul Porter**
Co-founder & Chief Operating Officer

**David Wilton**
Chief Financial Officer



## Andy Stewart (4)
Senior Vice President,
Group Director of Finance (38)

**Joining date:**
October 2018

**Experience:**
Andy has held a number of senior finance positions in the technology and telecommunications sectors, including FTSE listed businesses such as Experian and BT and also three years as the Financial Controller at Plusnet. He started his career at PwC, qualifying as a chartered accountant in 2008. The majority of his nine years at PwC was spent in its M&A Advisory practice, delivering complex financial due diligence projects to an array of different clients and sectors. His time at PwC also included two years in its Madrid office, working on pan-European and global deals.

**Skills brought to the Board:**
Finance operations, control and governance, financial insight and reporting, M&A (due diligence and integration)

**Sector experience:**
Technology, telecommunications, professional services

## Steven Webb (5)
Executive Vice President, General Counsel and Company Secretary (58)

**Joining date:**
December 2017

**Experience:**
After qualifying as a solicitor with Norton Rose, Steven spent a number of years in private practice specialising in corporate and commercial law, before moving to his first Company Secretary role with Kalon Group plc in 1994. He became Company Secretary and General Counsel of Yorkshire Water plc (later re-named Kelda Group plc) in 1997 and spent 16 years in the same role at Premier Farnell plc from 2000. Steven was also a member of the Board of Governors of Leeds Beckett University for six years, including time as Deputy Chairman and Chairman.

**Skills brought to the Board:**
Corporate governance, M&A (UK, US, Germany, India, China), commercial negotiation, strategy development

**Sector experience:**
Manufacturing, utility, distribution

## Steve Shreeves (6)
Vice President,
Group Director of IT (51)

**Joining date:**
September 2018

**Experience:**
Following his first role programming Computer Numerical Controlled manufacturing equipment, Steve served in the Royal Air Force for 12 years as an Electronics Technician working on everything from airfield radars to satellite communications After leaving the RAF he joined Premier Farnell as a network engineer and, over 18 years there, progressed to Global Head of IT Operations, leading a team of approximately 100 IT staff across the world.

**Skills brought to the Board:**
Strong technical background in all elements of IT, experience in management of global teams and IT strategy definition and implementation

**Sector experience:**
Armed forces, distribution

### Tim Wilson 7
Senior Vice President,
Managing Director – Atomhawk (40)

**Joining date:**
February 2015

**Experience:**
Having graduated from Warwick University, Tim had an 11 year career in the Marketing and Communications sector, holding account management and planning roles working for brands including Virgin Money, Vodafone, Natural History Museum and World Rowing. He joined Atomhawk as Head of Operations in 2015, playing a key role in the expansion of the studio's growth of headcount, revenue and international footprint. He was appointed as Managing Director in September 2018 and oversees the Atomhawk studios in Gateshead and Vancouver. Tim is a member of BAFTA.

**Skills brought to the Board:**
Strategy development, brand planning, operational management, agency-model experience, M&A

**Sector experience:**
Video games, retail, tourism, leisure, sport, finance, B-2-B

### Dean Trotman 8
Senior Vice President,
Commercial Director (45)

**Joining date:**
January 2019

**Experience:**
Dean began his Games Industry career fresh from University, joining Codemasters Software as Acquisitions Manager in 1997. This was followed by 14 years as Commercial Director at SEGA Europe, responsible for introducing multiple new partnerships, projects, licences, and content as well as the best-practice porting of high-profile Japanese IP.

**Skills brought to the Board:**
Developer and Publisher Relations, Commercial Negotiation, Franchise Development, Games Publishing

**Sector experience:**
Gaming industry

### Gary Dunn 9
Senior Vice President, Managing Director – Sumo Digital (52)

**Joining date:**
October 2017

**Experience:**
After a 12 year career in Telecommunications, Gary joined the games industry in 2002, becoming Executive Producer for the Colin McRae Rally Franchise, being promoted to the Codemasters board after only three months, Gary was responsible for all internal and external development. Gary joined SEGA in 2005, and led the integration of both Creative Assembly and Sports Interactive into the company, notably growing the former from 60 to 300 staff. Gary returned to Codemasters in 2013, running the development for the company once more, including the F1 and DIrt Franchises. Gary ran his own Consulting practice for three years before joining Sumo.

**Skills brought to the Board:**
Game development leadership, acquisition and integration of games companies, games publishing

**Sector experience:**
Telecommunications, video games

### Lindsay Gupton 10
Senior Vice President,
CEO – Pipeworks Studios (55)

**Joining date:**
October 2020

**Experience:**
Lindsay has been leading development studios and businesses for over thirty years. As CEO of Pipeworks, he led its studios through sustained growth, including its spinout from Foundation 9 Entertainment (F9E) and acquisition by Digital Bros; a private equity-funded management buyout and its acquisition by Sumo Group. As Vice President of Studios for F9E, at the time the world's largest game developer, Lindsay was general manager of a four-studio international business unit including Pipeworks. As EVP/Studio Head at Amaze Entertainment, he led the studio through its rapid growth and acquisition by F9E. As President of Human Code Lindsay helped grow its studios from a start-up through its acquisition by Sapient in 1999 and as a Principal of Design Edge, he led numerous design/engineering projects for NASA, Dell, and Apple.

**Skills brought to the Board:**
Game development leadership, M&A, business development, strategy, and operational management

**Sector experience:**
Videogames, technology, defence and aerospace

### Karen Mcloughlin 11
Vice President,
Group Director of HR (49)

**Joining date:**
May 2005

**Experience:**
Karen began her career in the video games industry in 1996 at Gremlin Interactive, where she gained extensive experience in a gaming and software development environment. In 2005, as Sumo Digital was expanding, Karen joined as Office Manager in Sheffield. In 2011, she was promoted to HR Manager for Sumo Digital, moving into her current role of Group Director of HR in January 2018. Karen is a CIPD qualified HR professional.

**Skills brought to the Board:**
HR leadership, acquisition, integration, TUPE transfer, organisational change, employee relations, talent management

**Sector experience:**
Public sector, video game development

### Darren Mills 12
Senior Vice President, Co-founder & Director of Excellence & Integration (51)

**Joining date:**
May 2003

**Experience:**
Darren has 25 years' experience in developing video games, including co-founding Sumo Digital in 2003. Darren Started his career in the TV industry and moved over to the games Industry in 1995 starting at Gremlin in Sheffield in the Art department and rising to Studio Art Director for Infogrames Sheffield House. After co-founding Sumo in 2003 Darren took on the Art Director role for the studio and founded the Pune Studio in India in 2007. He was appointed Studio Director of the Sheffield Studio in January 2016 and began his current role in February 2020.

**Skills brought to the Board:**
Video Games Development, Business Leadership, Client Relationships and Studio Growth & Development

**Sector experience:**
Extensive experience in the video games industry

# Audit and Risk Committee Report

**Dear shareholder,**

I am pleased to present the Audit and Risk Committee Report describing our work during the past year.

## Committee Governance

The Audit and Risk Committee consists of two independent Non-Executive Directors and I chair the Committee as one of the independent Non-Executive Directors. I am a qualified chartered accountant and was the Chief Financial Officer of another listed company until my retirement in March 2019.

The other independent Non-Executive Director also has considerable experience in senior operational roles and is deemed to have the necessary ability and experience to understand financial statements.

The Committee meets at least three times a year. Additionally, private meetings are held with the external auditor and the Group Internal Auditor at which management are not present.

## Key responsibilities

The terms of reference of the Committee are available on the Sumo Group plc Investor Relations website. In accordance with these, the Committee is required, amongst other things, to:

- Monitor the integrity of the financial statements of the Group and external announcements of the results
- Advise on the clarity of disclosures and information contained in the Annual Report and Accounts
- Ensure compliance with applicable accounting standards and review the consistency of methodology applied
- Review the adequacy and effectiveness of the Group's internal controls and risk management system
- Oversee the relationship with the external auditors, reviewing their performance and independence, and advising the Board on their appointment and remuneration
- Consider the effectiveness of the Group's internal audit function and monitor management responsiveness to their findings and recommendations.

The Committee reports to the Board on all of these matters. The key work undertaken by the Committee during the year under review and up to the date of this Annual Report is detailed opposite.

## Internal audit

Following the recruitment of a Group Internal Auditor in June 2018 the function is now embedded within the Group and improvements have been made in establishing a formal policy framework, in particular for the management and approval of Group expenditure, as well as a three-year audit plan. The internal audit programme in place supports the introduction and improvement of key controls and policies. During the year audits included recruitment processes; the use of contractors in light of the impending IR35 legislation and the purchase order and expenses systems.

As part of the process of preparation of this Annual Report, the Group Internal Auditor reviewed the process for compilation and calculations underlying the Streamlined Carbon and Energy Report that appears page 40, providing the Committee with assurance regarding this new information disclosure.

## Internal control and risk management

The Audit and Risk Committee supports the Board in reviewing the risk management methodology and the effectiveness of internal control.

The Operating Board regularly reviews the Group risk register and this year, I have joined those meetings in my capacity as Chairman of the Audit and Risk Committee. The direct engagement of the Operating Board has been a key area of progress, ensuring that the "tone from the top" on matters of risk is appropriately framed. This is coordinated by the Group Internal Auditor who reports on principal risks and mitigation actions to the Committee.

## External audit

The Audit and Risk Committee makes recommendations to the Board regarding the appointment and remuneration of the Group's external auditor and satisfies itself that they maintain their independence. The Committee reviews its formal policy governing the performance of non-audit work annually. This review was carried out in November 2020 and, in line with the incoming FRC Revised Ethical Standard 2019, determined that the external auditor will only be appointed to provide non-audit services in the very limited areas permitted by the Standard. All assignments are monitored by the Committee, and a summary of all fees paid to the auditor is set out in Note 10 on page 93 of these financial statements. The external auditor reports to the Committee on actions taken to comply with professional and regulatory requirements with respect to its independence.

The respective responsibilities of the Directors and external auditor in connection with the Group financial statements are explained in the Statement of Directors' Responsibilities and the Auditor's Report.

Whilst the Audit and Risk Committee has not adopted a formal policy in respect of the rotation of the external auditor, during 2019 the Committee performed a thorough review of the Group's current and future requirements from its auditor. In September 2019 the Group appointed Ernst & Young LLP as the new external auditor following a tender process led by the Committee. There is an active, ongoing dialogue between the Committee and the external auditor to ensure that there is a clear roadmap of actions to improve the effectiveness and efficiency of the external audit process.

## Significant reporting issues and judgements

At the request of the Board, the Audit and Risk Committee considered whether the 2020 Annual Report is fair, balanced and understandable and whether it provides the necessary information for shareholders to assess the Group's performance, business model and strategy. The Committee was satisfied that, taken as a whole, the 2020 Annual Report is fair, balanced and understandable.

The Audit and Risk Committee assesses whether suitable accounting policies have been adopted and whether appropriate estimates and judgements have been made by management. The Committee also reviews accounting papers prepared by management, and reviews reports by the external auditor. The significant reporting matters and judgements the Committee considered during the year included:

- The appropriateness of the Group's approach to the application of IFRS 15 (Revenue recognition) to its portfolio of customer contracts. The Committee considered and reviewed the key financial assumptions underpinning the reporting of revenue, with particular emphasis on contracts entered into or renewed around the 31 December year-end, and royalty income. The Committee was satisfied that the treatment of revenue was compliant with IFRS 15 and was applied consistently across the Group's contractual income (see the Financial Review and Note 4 to the financial statements)
- Accounting for the acquisitions of Lab42 Limited and Pipeworks, Inc.. The Committee reviewed the accounting for the acquisitions during the year, in particular aspects of the transactions that required significant accounting judgements and estimates, being the measurement of intangible assets acquired and of the fair value of contingent consideration. The committee was satisfied that the treatment of these acquisitions and key judgements and estimates were compliant with IFRS3: Business Combinations
- The accounting presentation of Video Games Tax Relief Credits within direct costs. The Committee reviewed the Group's ongoing treatment of these receipts and continues to be of the opinion that this approach best reflects the substance and nature of these Credits
- Testing of goodwill and other intangible assets for impairment. The Committee reviewed the assumptions and calculations underlying the impairment review and was satisfied that no impairment is appropriate (see Note 13 to the financial statements)
- Accounting for taxation. The Committee reviewed the corporation tax accounting, including the recoverability of deferred tax balances, and the associated disclosures (see Notes 11 and 21 to the financial statements)
- Accounting for share based payments. The Committee reviewed and confirmed the assumptions underlying the accounting for share based payments
- Alternative performance measures (APMs): The committee reviewed the calculation, application and presentation of APMs in the annual report and accounts and is satisfied that the APMS presented provide valuable additional information for the users of this report to understand the underlying trading performance of the business.

At the time of preparation of this Report in 2020 the COVID-19 global pandemic began. The Committee was closely involved throughout the remainder of the year on the actions being taken in response. This included increasing the frequency of the Operating Board risk reviews which, as mentioned earlier, I attended. These reviews considered in detail the risks associated with the move to working from home, and the mitigating actions taken to respond to those risks. While the pandemic persists, the Committee is satisfied that the Group has in place robust mitigating actions and plans.

**Michael Sherwin**
Chair of the Audit and Risk Committee

30 March 2021

# Directors' Remuneration Report

**Dear shareholder,**

I am pleased to present the Directors' Remuneration Report for the year ended 31 December 2020.

I chair the Remuneration Committee as an Independent Non-Executive Director and Michael Sherwin, who is also an independent Non-Executive Director, is the other member of the Committee. We are supported by Steven Webb as Company Secretary.

The aim of this report is to provide shareholders with information to understand our remuneration strategy and its linkage to the Group's financial performance.

In preparing the report, we have taken account of the guidance issued by the Quoted Companies Alliance ("QCA"), as the Company has chosen to apply the Corporate Governance Code published by the QCA.

## Responsibilities

The Committee's terms of reference are to review the performance of the Executive Directors and of the members of the Operating Board and determine their terms and conditions of service, including their short and long-term rewards, having due regard to the interests of shareholders and to any risks that might arise to the Company. In doing so, the Committee will have regard to the position of employees across the Group.

The Remuneration Committee met seven times during the year and has five meetings scheduled for 2021.

During the year FIT Remuneration Consultants ("FIT") provided the Committee with external remuneration advice, including on all aspects of remuneration policy for Executive Directors. The Remuneration Committee is satisfied that the advice received was objective and independent.

FIT received a fee of £33,896 plus VAT for their advice during the year to 31 December 2020. FIT is a member of the Remuneration Consultants Group and the voluntary code of conduct of that body is designed to ensure objective and independent advice is given to remuneration committees.

## Our performance in 2020

As summarised in the Chairman's statement, 2020 was another successful year for the Group despite the severe challenges presented by the COVID-19 pandemic.

The Group invested significant time and resources in ensuring the safety of its people and the efficient transition to working from home. No jobs were lost or colleagues placed on furlough and the Group did not take up any UK Government emergency funding or access related business assistance programmes (one VAT payment was deferred but paid in full before the end of the next VAT quarter). As referred to in the Chairman's Statement earlier in this Annual Report, significant resources and time were committed to ensuring the welfare of the Group's employees, including the provision of office equipment for home-working, physical and mental health support and resources and the delivery of care packages.

The Group continued to deliver excellent service to its clients and to launch new games of its own, resulting in the strong financial results referred to earlier in this Annual Report. Progress also continued with strategic targets, for example the completion of two acquisitions in the year (Pipeworks and Lab42).

This success is reflected in the pay out-turns below. The Group has also grown significantly during the year and has ambitious plans to continue to do so in an industry in which competition for key talent is intensifying. The Committee has taken these factors into account in its approach to Executive remuneration.


## Key pay out-turns for 2020

Each of the Executive Directors received an annual bonus based on financial and strategic measures described in more detail later in this report. The salary increases deferred in April 2020 and referred to in last year's Remuneration Report were implemented by the Committee in October 2020, once it became clear that performance for the year would remain healthy despite COVID-19.

Given the business' resilient performance and also the experience of our shareholders and employees in the year, the Committee determined that it was appropriate to pay annual bonuses at the levels disclosed without further adjustment. Annual bonuses at Sumo are extended widely amongst our people and over 970 (93% of the total number at the year-end) received a bonus for 2020.

The performance period for LTIP awards made to Executive Directors and other senior executives in March 2018 ended on 31 December 2020 and the combination of strong financial performance and significant share price growth resulted in the vesting of awards described later in this Report. Under the arrangements in place half of the vested amount (after any sale to meet tax liabilities on exercise) must be retained until March 2022.

On 27 April 2020 we made new LTIP awards to our senior executives, including our Executive Directors. These awards are capable of vesting after three years if stretching Absolute TSR targets are achieved (10% to 30% CAGR). These targets were chosen to align our senior executives directly with the creation of significant further shareholder value.

## Looking forward to 2021

The key terms of the remuneration policy are set out on pages 58 to 60 and the key components of Executive packages are summarised as follows:

- Base salary, pension and benefits positioned competitively to the market in which the Company operates.
- Annual bonus – an annual bonus with performance criteria based on a mixture of profit-based and personal objectives as set by the Remuneration Committee.
- Long-term incentive plan (LTIP) – share-based awards with three-year performance criteria.

I do hope that this Report clearly explains our approach to remuneration and enables you to appreciate how it underpins our business growth strategy.

**Andrea Dunstan**
Chair of the Remuneration Committee

30 March 2021

Directors' remuneration Report
continued

As it is listed on AIM, the Company is not required to provide all of the information included in this Report. However, in the interests of transparency this has been included as a voluntary disclosure. The Report is unaudited.

| Our overall remuneration policy is to: | |
|---|---|
| Be consistent and principled | • maintain a consistent Executive compensation strategy, based on clear principles and objectives |
| Link pay to strategy | • support the Company's strategy and its execution |
| Align with shareholders' interests | • closely align executive reward with shareholder returns |
| Be competitive | • ensure that the organisation can attract, motivate and retain high-calibre talent to enable it to compete successfully in an international market |
| Link pay to performance | • provide the opportunity for executives and other colleagues to receive competitive rewards for performance, aligned to the sustained success of the overall Group, paying what is commensurate with achieving these aims |
| Reflect the internal landscape | • operate broadly-based incentives to recognise talented performers throughout the Group and take account of pay and conditions for all employees in the Group when setting Executive remuneration<br>• the Committee has regard to pay structures across the wider Group when setting the remuneration policy for Executive Directors. In particular, the general base salary increase for the broader workforce is considered when determining the annual salary review for the Executive Directors. While participation in the Group's long-term incentive plans is limited to those employees considered to have the greatest potential to influence overall levels of performance, the Group encourages equity ownership at all levels through our use of a tax-advantaged Share Incentive Plan ("SIP") |
| And be clear | • be easy to understand and supported by clear communication |

**It has these elements:**

| Fixed |
|---|
| Salary |
| Benefits |
| Pension or pension allowance |

| Variable based on performance |
|---|
| Annual bonus |
| Long-term incentive plan |

The table below provides more detail on the key features of our remuneration policy and how it will operate in 2021:

| Element | Policy | Purpose and link to strategy |
|---|---|---|
| Base salary | Positioned competitively in line with the market.<br>The Committee reviewed the salaries of the Executive Directors' during March 2021 and considered increases that the Committee believed were appropriate and recognised strong performance by the business and the individuals. As part of this review, the Committee took account of the evolving senior talent landscape in the sector, as evidenced by recent hires of senior managers brought into the Group.<br>With effect from 1 April 2021, Executive Directors' salaries are therefore as follows, with the percentage increases aligned to the range of increases for strongly performing group employees:<br>• CEO £315,000 (2020/21: £300,000)<br>• COO £272,000 (2020/21: £252,000)<br>• CFO £258,000 (2020/21: £239,000) | To provide an appropriate level of fixed cash income to recruit and retain talent through the provision of competitively positioned base salaries. It is critical to the success of the business that it can recruit talented individuals at all levels. |
| Discretionary annual bonus | Maximum opportunity for Executive Directors is 125% of base salary.<br>• Performance is measured over one financial year.<br>• Weightings and targets are reviewed and set at the start of each financial year.<br>• For 2021, 70% of the bonus will be based on pre-bonus Adjusted EBITDA performance with the remaining 30% based on the achievement of strategic objectives.<br>• Malus and clawback provisions apply in the case of:<br>– a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company; or<br>– action or conduct, which, in the reasonable opinion of the Board, amounts to fraud or gross misconduct. | Designed to motivate Executive Directors to focus on annual goals and milestones which are consistent with the Group's longer-term strategic aims. Forms part of the significant weighting of overall remuneration to variable elements with stretching performance measures.<br>Payment is dependent on achieving profitable growth and strategic objectives that are essential to deliver the strategy. |
| Long-term Incentive Plan (LTIP) | • Our Executive Directors received awards at or shortly after IPO which had the performance conditions listed on page 62 and which were assessed after the end of the 2020 financial year. Continuing the approach determined for 2020, the Committee intends to make regular, annual awards under the LTIP<br>• Annual LTIP awards to Executive Directors will be made automatically each year on the fourth dealing day following announcement of annual results, using the average of share prices for the preceding three dealing days to calculate the number of award shares<br>• In 2021, the Committee intends to make awards over shares worth 150% of salary to the Executive Directors which will vest subject to absolute TSR growth over a three-year period, with a threshold of 10% cumulative annual growth (at which 20% of any award will vest) and full vesting at a cumulative annual growth rate of 20%. This range reflects a continuing aspiration for significant growth at Sumo; the company's strong share price performance in 2020 means that the targets for 2021 are measured from a base point almost twice that of the base point for 2020's LTIP awards<br>• Malus and clawback provisions apply in the case of:<br>– a material misstatement resulting in an adjustment in the audited accounts of the Group or any Group company; or<br>– action or conduct, which, in the reasonable opinion of the Board, amounts to fraud or gross misconduct. | Aligns the interests of the Executive Directors with shareholders over the long-term.<br>Incentivises delivery of stretching financial targets that will provide value to shareholders.<br>Acts as a retention mechanism for key talent.<br>Further element of variable pay with stretching performance measures. |

# Directors' remuneration Report continued

| Element | Policy | Purpose and link to strategy |
|---|---|---|
| Pension | • Executive Directors are entitled to receive pension contributions from the Company which are equal to 5% of the base salary (in line with the range of 3-5% available to other employees) delivered as:<br>– money purchase benefits; or<br>– a cash equivalent.<br>Not included as salary for the purposes of annual bonus or LTIP awards. | To recruit and retain the right people to deliver the strategy. |
| Benefits | The Executives are entitled to a standard Director benefits package including a car allowance, private medical expenses insurance and life assurance cover. Executive Directors can also participate in the SIP on the same basis as other employees. | To recruit and retain the right people to deliver the strategy. |
| Termination | Information on the service contracts for Executive Directors and letters of appointment for Non-Executive Directors is provided on the following page.<br>On a termination, the Company would be obliged to meet its contractual obligations, but would apply a robust approach to the relevant individual mitigating any losses. | Honour contractual commitments while not paying more than is necessary. |

## Recruitment remuneration arrangements

When hiring a new Executive Director, the Committee will set the Director's ongoing remuneration in a manner consistent with the policy described on the previous page. To facilitate the hiring of candidates of the appropriate calibre required, the Committee may make an award to 'buy-out' variable remuneration arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including the form of award, any performance conditions and the time over which the award would have vested. Recruitment awards will normally be liable to forfeiture or 'clawback' on early departure.

Appropriate costs and support will be covered if the recruitment requires relocation of the individual.

## Communication with Shareholders

The Remuneration Committee is committed to an ongoing dialogue with shareholders and will seek the views of significant shareholders when formulating and implementing any changes to the remuneration policy, including when any major changes are being made to remuneration arrangements. The Remuneration Committee Chair will be available to answer questions from shareholders regarding remuneration at the Company's Annual General Meeting.

## Executive Director contracts and loss of office payments

Both the CEO and CFO entered into service agreements on 15 December 2017, which became effective upon Admission. The COO entered into a new service agreement on 8 April 2019 to coincide with his appointment as a Director. The agreements require a notice period of one year from the Company and from the Executive. It is the Committee's intention that any future service contracts will be subject to similar notice periods.

Other than payment of salary and benefits in lieu of notice, the Directors' service agreements and letters of appointment do not provide for benefits on termination of employment.

Outstanding awards made under the LTIP would normally lapse on an Executive leaving employment. However, there are specific rules of the plan dealing with the treatment of awards on leaving. In summary, if an Executive were a 'good leaver', he or she may be entitled to retain his or her award, although, for unvested awards:

- the number of shares under an award may be reduced to reflect any unexpired performance period (referred to as pro rating); and
- the award would normally remain subject to any applicable performance conditions.

A 'good leaver' is someone who leaves by reason of injury, disability, redundancy, on the sale or transfer out of the Group of his or her employing business, on retirement with the agreement of the Committee or in other special circumstances at the Committee's discretion. Someone dying in service would also be a good leaver, with their personal representatives assuming their rights in respect of their awards.

## Terms and conditions for Non-Executive Directors

Non-Executive Directors do not have service contracts but appointment letters setting out their terms of appointment. Ian Livingstone was appointed on 20 November 2017 and Michael Sherwin on 21 December 2017. Andrea Dunstan was appointed on 24 September 2018. The appointments may be terminated on one month's notice by either party.

The Board considers that Andrea Dunstan and Michael Sherwin are independent Non-Executive Directors.

The Non-Executive Directors receive an annual base fee reflecting their respective time commitments and do not receive any benefits in addition to their fees, nor are they eligible to participate in any pension, bonus or share-based incentive arrangements.

The table of emoluments on page 62 shows the fees received by each Non-Executive Director for the year.

The fees to be paid to Chairman and Non-Executive Directors in 2021 are as follows:

- Ian Livingstone - £100,000
- Michael Sherwin - £52,000 (representing £47,000 base fees plus a £5,000 fee as Senior Independent Director)
- Andrea Dunstan - £47,000

Directors' remuneration Report
continued

## Directors' remuneration

| Name of Director | Fees/basic salary (2019) £'000 | Benefits (2019) £'000 | Bonus (2019) £'000 | LTIP £'000[6] | Pension (2019) £'000 | 2020 total £'000 | 2019 total £'000 |
|---|---|---|---|---|---|---|---|
| C Cavers | 293 (263) | 19 (19) | 207 (173) | – | 15 (13) | 534 | 468 |
| D Wilton | 234 (217) | 14 (15) | 165 (141) | – | 12 (11) | 425 | 384 |
| P Porter | 227 (165[7]) | 31 (22) | 174 (106) | - | 12 (8) | 444 | 301 |
| **Non-Executive** | | | | | | | |
| I Livingstone | 98 (69) | – | – | – | – | 98 | 69 |
| M Sherwin | 48 (42) | – | – | – | – | 48 | 42 |
| A Dunstan | 44 (42) | - | - | - | - | 44 | 42 |
| **Aggregate** | **944 (878)** | **64 (56)** | **546 (420)** | **-** | **39 (32)** | **1,593** | **1,386** |

6 The performance conditions for LTIP awards granted in March 2018 were measured after the year end, resulting in the vesting of awards described below
7 Part year only – appointed to the Board April 2019

## Annual bonus plan

The table below summarises performance and outturns for the Executive Directors under the 2020 Annual bonus. The maximum bonus opportunity for 2020 was 100% of base salary.

| | Threshold | Target | Maximum | Actual | Outturn |
|---|---|---|---|---|---|
| Adjusted pre- bonus EBITDA (70% of maximum) | £19.6m[8] | £21.8m | £24.9m | £10.8m | 55.5% of maximum |
| Strategic objectives (30% of maximum) | See commentary below | | | | 100% of maximum |
| | | | | Carl Cavers | 68.88% of salary[9] |
| | | | | Paul Porter | 68.88% of salary |
| | | | | David Wilton | 68.88% of salary |

8 Any payments for performance below Adjusted EBITDA target require Remuneration Committee judgement, and accordingly the figure for threshold is indicative only.
9 In line with established practice at Sumo Group, annual bonuses are calculated by reference to salary rates as at 31 December for the performance year.

The strategic objectives set for the Annual bonus plan were aligned with the Group's strategic priorities and related to growth by acquisition; establishing a publishing division; matters related to ESG and growth outside the UK. The bonus payments referred to above reflect the excellent performance in these areas.

## Long-term incentive plan (LTIP)

The tables below summarise the awards made to Executive Directors under the plan.

### Nil-cost awards with performance conditions as at 31 December 2020

| Award date | Interest as at 31/12/19 | Granted in the year[10] | Vesting in the year | Lapsed in the year | Exercised in the year | Interest as at 31/12/20 | Performance period ending |
|---|---|---|---|---|---|---|---|
| **C Cavers** | | | | | | | |
| 9 March 2018 | 1,200,000 | | | | | 1,200,000 | 31 December 2020 |
| 27 April 2020 | | 165,441 | | | | 165,441 | 31 December 2022 |
| **P Porter** | | | | | | | |
| 9 March 2018 | 873,435 | | | | | 873,435 | 31 December 2020 |
| 27 April 2020 | | 138,970 | | | | 138,970 | 31 December 2022 |
| **D Wilton** | | | | | | | |
| 9 March 2018 | 885,000 | | | | | 885,000 | 31 December 2020 |
| 27 April 2020 | | 131,801 | | | | 131,801 | 31 December 2022 |

10 The average share price for the three dealing days before the date of award on 27 April 2020 was 181.33p. Each of the awards represents a LTIP award over shares worth 100% of annual salary as at the date of grant.

## Performance conditions

| Performance measure | 2018 award (35% cumulative adjusted EPS and 65% TSR) | 2020 award (100% TSR) |
|---|---|---|
| **Cumulative adjusted EPS**<br>Adjusted EPS, as defined in the LTIP Rules, excludes share-based payment costs and amortisation | • Cumulative adjusted EPS for the years ended 31 December 2018, 2019 and 2020<br>• Threshold (8.75% of maximum vesting): 17.83p<br>• Mid-range (21% of maximum vesting): 18.77p<br>• Maximum: (35% of maximum vesting): 20.65p | |
| **Absolute TSR growth**<br>Annualised growth in Total Shareholder Return | • Threshold (nil vesting): 10% p.a.<br>• Mid-range: (35% of maximum vesting) 20% p.a.<br>• Maximum: (65% of maximum vesting) 30% p.a. | • Threshold (nil vesting): 10% p.a.<br>• Maximum: (100% of maximum vesting) 30% p.a. |

Performance attainment between the levels shown above produces payments on a pro-rata basis

After the year end it was confirmed that the cumulative adjusted EPS for the years ended 31 December 2018, 2019 and 2020 was 20.00p and that absolute TSR growth over the same years was an annualised 38.5%, resulting in the maximum vesting for that part of the March 2018 awards subject to TSR growth and 86.26% of maximum vesting for the part of the awards subject to the EPS measure.

The shares comprised in the 2018 awards are held in a joint ownership arrangement with the Sumo Group plc employee benefit trust.

The charge for share-based payments appears as Note 20 to the accounts.

## Share Incentive Plan (SIP)

The table below summarises the shares acquired by Executive Directors under the plan as at 31 December 2020.

| Award date | Matching shares 31/12/20 | Free Shares 31/12/20 | Partnership Shares 31/12/20 |
|---|---|---|---|
| C Cavers | 1,058 | 200 | 3,175 |
| P Porter | 715 | 200 | 2,164 |
| D Wilton | 1,058 | 200 | 3,175 |

The value of matching shares awarded to Executive Directors in 2020 (calculated using 3-month average share prices to 31.12.20 – 281.35p) were:

| | |
|---|---|
| C Cavers | £861 |
| P Porter | £861 |
| D Wilton | £861 |

# Directors' Report

for the year ended 31 December 2020

## The Directors present their report together with the audited Group financial statements of the Parent Company (the 'Company') and the Group for the year ended 31 December 2020.

### Business review and future developments

A review of the performance of the Group during the year, including principal risks and uncertainties, key performance indicators and comments on future developments, is given in the Strategic Report.

### Results and dividends

The Group recorded revenue in the year of £68.9m (2019: £49.0m) and profit after tax of £1.6m (2019: £7.6m).

No dividends have been paid or are proposed.

### Events after the balance sheet date

These are disclosed in Note 27 of the Financial Statements.

### Financial risk management

Information relating to the principal risks and uncertainties of the Group have been included within the Strategic Report. Further information relating to the financial risks of the Group have been included within Note 23, financial risk management.

### Directors and their interests

The Directors of the Company who were in office during the year and up to the date of signing the Group financial statements were:

| | |
|---|---|
| Carl Cavers | appointed 20 November 2017 |
| David Wilton | appointed 20 November 2017 |
| Ian Livingstone | appointed 20 November 2017 |
| Michael Sherwin | appointed 21 December 2017 |
| Andrea Dunstan | appointed 24 September 2018 |
| Paul Porter | appointed 9 April 2019 |

All the current Directors will stand for election or re-election at the forthcoming AGM.

The Directors who held office during the year and as at 31 December 2020 had the following interests in the Ordinary Shares of the Company:

| Name of Director | Number |
|---|---|
| Carl Cavers | 4,651,340 |
| Paul Porter | 4,505,148 |
| David Wilton[11] | 336,933 |
| Ian Livingstone | 2,153,287 |
| Michael Sherwin | 25,556 |
| Andrea Dunstan | 53,333 |

[11] The interests of David Wilton in Ordinary Shares set out above include his interests in 26,000 Ordinary Shares held in the name of his wife.

In addition to the interests in Ordinary Shares shown above, the Group operates a long-term incentive plan (the 'LTIP') for senior executives, under which awards may be granted over shares in the Company. The maximum number of Ordinary Shares which could be issued to Directors in the future under such awards at 31 December 2020 is shown below:

| Name of Director | Number |
|---|---|
| Carl Cavers | 1,365,441 |
| David Wilton | 1,016,801 |
| Paul Porter | 1,012,405 |

The market price of the Company's shares at the end of the financial year was 335.0p (on 31 December 2019: 118.5 p) and the range of market prices during the year was between 128.0p and 346.0p.

### Directors' indemnities and insurance

The Company has made qualifying third-party indemnity provisions for the benefit of the Directors, which were in force from their dates of appointment and up to the date of this report.

### Significant shareholdings

As at 30 March 2021, the Company has been advised, in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, or was made aware through the IPO process of the following notifiable interests in 3% or more of its voting rights:

| | | |
|---|---|---|
| Perwyn Bidco II (UK) Limited | 26,170,961 | 15.33% |
| Mount Emei Investment Limited (Tencent) | 15,000,000 | 8.78% |
| BlackRock Inc | 14,395,963 | 8.43% |
| Lake Street Labs Topco, LLC | 9,893,940 | 5.79% |
| Swedbank Robur Fonder AB | 9,028,477 | 5.29% |
| Liontrust Investment Partners LLP | 8,000,000 | 4.68% |
| Premier Miton Group plc | 7,584,602 | 4.44% |
| Schroder Investment Management | 6,500,000 | 3.81% |

## Employees

The Group regularly provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees of the financial and economic factors affecting the Group plays a major role in its performance.

The Group recognises its responsibility to employ disabled persons in suitable employment and gives full and fair consideration to such persons, including any employee who becomes disabled, having regard to their particular aptitudes and abilities. Where practicable, disabled employees are treated equally with all other employees in respect of their eligibility for training, career development and promotion.

## Share capital and voting

The Company has one class of equity share, namely 0.01p Ordinary Shares. The shares have equal voting rights and there are no special rights or restrictions attaching to any of them or their transfer to other persons. The rights and obligations attaching to these shares are governed by the Companies Act 2006 and the Company's Articles.

## Appointment and replacement of Directors and changes to constitution

Rules governing the appointment and replacement of Directors, and those relating to the amendment of the Company's Articles of Association, are contained within those Articles of Association, a copy of which is located on the Company's website (www.sumogroupplc.com).

## Notice of Annual General Meeting

A Notice of AGM, with explanatory notes, is made available to all shareholders.

## Corporate governance

The Group's statement on Corporate Governance can be found in the Corporate Governance section of this Annual Report which is incorporated by reference and forms part of this Directors' Report and on the Company's website.

## Going concern basis

The Group's business activities, along with the factors likely to affect its future development, performance, and position, are set out in the Group financial review, together with the financial position of the Group, its cash flows, liquidity position and borrowing facilities including projected compliance with covenants.

Financial projections have been prepared to September 2022 which show positive earnings and cash flow generation and project compliance with banking covenants at each testing date. The Group has applied downside sensitivities to these financial projections to assess the Group's ability to continue operating as a going concern. This process included a reverse 'stress test' to identify the break points in the Group's liquidity or banking covenants compliance. The break points identified in this exercise are considered to be remote scenarios as they are triggered only by a severe reduction in forecast revenue below that which is already expected from existing contracted and near contracted projects. Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and they have adopted the going concern basis of accounting in preparing the annual Group financial statements. A more detailed assessment of going concern is provided in Note 2 of the Financial Statements.

## Forward-looking statements

This Annual Report contains forward-looking statements that involve risk and uncertainties. The Group's actual results could differ materially from those estimated or anticipated in the forward-looking statements as a result of many factors. Information contained in this Annual Report and Accounts relating to the Company should not be relied upon as a guide to future performance.

## Disclosure of information to auditor

The Directors of the Company at the date of the approval of this report confirm that:

- so far as each Director is aware, there is no relevant audit information of which the Company's auditor are unaware; and
- each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## Independent auditor

The auditor, Ernst & Young LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the AGM.

By order of the Board

**Steven Webb**
Company Secretary
30 March 2021

# Statement of Directors' responsibilities

## The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the consolidated financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 101 'Reduced Disclosure Framework') as applied in accordance with the provisions of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing the Parent Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 or United Kingdom Generally Accepted Accounting Practice have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Steven Webb**
Company Secretary
Sumo Group plc

Unit 32 Jessops Riverside
Brightside Lane
Sheffield
S9 2RX

Registered number: 11071913

30 March 2021

# Financial Statements

# Independent Auditor's Report

to the members of Sumo Group plc

## Opinion

In our opinion:

- Sumo Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with section 408 of the Companies Act; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Sumo Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise:

| Group | Parent company |
|---|---|
| Consolidated income statement for the year ended 31 December 2020 | Balance sheet as at 31 December 2020 |
| Consolidated statement of comprehensive income for the year ended 31 December 2020 | Statement of changes in equity for the year ended 31 December 2020 |
| Consolidated balance sheet as at 31 December 2020 | Related notes 1 to 9 to the financial statements including a summary of significant accounting policies |
| Consolidated statement of changes in equity for the year ended 31 December 2020 | |
| Consolidated cash flow statement for the year ended 31 December 2020 | |
| Related notes 1 to 28 to the financial statements, including a summary of significant accounting policies | |

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards to the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Group and parent company's ability to continue to adopt the going concern basis of accounting included:

- We obtained from management their latest financial models that support the Board's assessment and conclusions with respect to the statement of Going Concern which covers the period to 30 September 2022. These models include cash forecasts and covenant calculations;
- We discussed with management the critical estimates and judgements applied in their latest financial models so we could understand and challenge the rationale for the factors incorporated into these financial models and the sensitivities applied;
- We inspected the financial models provided to assess their consistency with our understanding of the operations of the group and tested the mathematical integrity of the models. The Group has modelled downside scenarios in their cash forecasts and covenant calculations in order to incorporate unexpected changes to the forecast liquidity of the Group;
- We agreed key assumptions including visibility of development revenue and contracted or near contracted revenues to underlying supporting information and fact patterns where and as appropriate whilst considering any contra indicators;
- We considered the mitigating factors included in the cash forecasts and covenant calculations that are within control of the Group. This includes review of the Company's non-operating cash outflows. We also verified credit facilities available to the Group;
- We subjected the financial models to additional stress testing to confirm the Board have considered a balanced range of outcomes in their assessment of going concern on the group. This included a reverse stress test; and
- We reviewed the Group's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate and in conformity with the reporting standards.

Based on the work we have performed, we agree with the Board's assessment that there are no material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and parent company's ability to continue as a going concern over the assessment period to 30 September 2022.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

## Overview of our audit approach

| | |
|---|---|
| **Key audit matters** | • Recognition of contract revenue<br>• Identification and measurement of separately identified intangible assets following the acquisition of Pipeworks Inc. |
| **Audit scope** | • We performed an audit of the complete financial information of 5 components and audit procedures on specific balances for a further 2 components.<br>• The components where we performed full or specific audit procedures accounted for 93% of Group adjusted profit before tax, 100% of Group revenue and 98% of Group total assets. |
| **Materiality** | • Overall Group materiality of £425,000 which represents 5% of Group adjusted profit before tax |

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

# Independent Auditor's Report to the members of Sumo Group plc continued

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Recognition of contract revenue**<br><br>The Group has reported revenues of £68.9m (FY19: £49.0m).<br><br>We assessed revenue recognition as a fraud risk as revenue forms the basis for a number of the Group's key performance indicators. Revenue underpins the Group's Adjusted EBITDA measure which is a key metric in both external communications and for management incentives.<br><br>We identified two specific risks of fraud and error in respect of inappropriate revenue recognition given the long-term nature of the Group's contracts as follows:<br><br>• Inappropriate timing of recognition of revenue, including estimation of stage of completion of long-term development contracts<br><br>• Inappropriate measurement of variable consideration in respect of royalty income<br><br>Refer to the Accounting policies (page 81); and Note 4 of the Consolidated Financial Statements. | **Walkthrough of controls**<br><br>We performed walkthroughs of each significant class of revenue transactions and assessed the design effectiveness of management's key controls.<br><br>**Inappropriate timing of recognition of revenue, including estimation of stage of completion of long-term development contracts**<br><br>We evaluated management's determination of whether the nature of the Group's contracts results in the provision of a good or service at a point in time or over a contractual term through review of a sample of contracts.<br><br>For a sample of contracts, we reviewed the contract and identified key terms, verified the total forecast revenue to signed customer agreements, recalculated the revenue recognised in the period and obtained evidence of approval of milestones from customers.<br><br>We have assessed the application of the group's revenue recognition accounting policies in the newly acquired Pipeworks and Lab42 components.<br><br>For products and services where revenue is earned over a contractual term, we tested a sample of transactions to ensure the amount of revenue recognised in the year and the amount accrued or deferred at the balance sheet date were accurately calculated based on progress of the contract against milestones via agreeing a sample of milestones achieved in the year to payment and challenge of the cost to complete assumption. We have also compared the contract performance to both the initial and latest contract forecasts and investigated variances and monitored the progress of milestones against the contract's milestone schedule.<br><br>We used data analytics to trace the revenue invoiced in the year through to cash receipts. We investigated any material revenue postings to understand whether any were outside of expectations.<br><br>**Inappropriate measurement of variable consideration in respect of royalty income**<br><br>We evaluated management's accounting policy for variable consideration for consistency against the requirements of IFRS 15.<br><br>We challenged the key assumptions in estimating the level of variable consideration recognised. In particular we have challenged the appropriateness of revenue recorded, and for which sales will be made in the future and evaluating any key judgments which underpin this.<br><br>**Management Override**<br><br>We performed certain specific journal entry testing procedures at full and specific scope locations to address the risk of management override, including testing to identify unusual, new or significant transactions or contractual terms.<br><br>**Disclosure**<br><br>We also considered the adequacy of the Group's disclosures relating to revenue recognition in notes 3 (critical accounting estimates and judgments) and note 4 (segmental reporting). | Based on procedures performed, we did not identify any evidence of material misstatement in the revenue recognised in the year in accordance with IFRS 15. |
| | We performed full and specific scope audit procedures over this risk area in 5 components, which covered 100% of reported revenues. | |

| Risk | Our response to the risk | Key observations communicated to the Audit Committee |
|---|---|---|
| **Identification and measurement of separately identified intangible assets following the acquisition of Pipeworks Inc.**<br><br>The group acquired Pipeworks Inc in October 2020 for consideration of $103.7m. With the support of an external specialist the group has identified $27.7m of separately identifiable intangibles. This includes; Customer Relationships $17.3m, Pipework's Brand $6.2m, Order Backlog $3.6m and the Prominence Poker IP $0.6m.<br><br>We assessed this to be a significant risk due to the size and complexity of the identification and valuation of the separately identifiable intangible assets. This is due to the inherent estimation uncertainty related to the assumptions applied in the valuation models used to value the separately identifiable intangible assets.<br><br>Refer to the Accounting policies (page 81); and Note 26 of the Consolidated Financial Statements. | We walked through the controls over the valuation of the acquired intangible assets and understood management's process to comply with IFRS 3 Business Combinations. We also obtained and reviewed management's assessment which was prepared with the support of an external specialist.<br><br>With the involvement of an EY business valuations specialist, we<br><br>(1) Assessed the competence, capabilities and objectivity of management's specialists via reviewing their report, and;<br><br>(2) Evaluated and concluded on the results of management's specialist's procedures to determine the preliminary fair value of the intangible assets acquired. We reviewed management's specialist's report and performed procedures which included:<br><br>• Evaluating the completeness and existence of the intangible assets recognised;<br><br>• Assessment of the valuation methodologies applied to each separately identifiable intangible asset identified;<br><br>• Assessment of the key assumptions made by management, such as; weighted average cost of capital, royalty rate and internal rate of return and compared them to our independently calculated range;<br><br>• Benchmarking of the royalty rate and discount rate assumptions to other transactions which have occurred within this sector;<br><br>• Performing sensitivity analysis to understand the extent to which the changes in the key assumptions gave rise to a materially different view valuation for the intangible assets.<br><br>In addition, we assessed the prospective financial information utilised in the valuation model based on the viewpoint of a market participant as defined by IFRS 13 Fair Value Measurement. This included evaluating the historical accuracy of the forecasting and current performance. In particular, the component team has assessed the forecast revenues via comparing these to contractual agreements and the estimated cost to complete open contracts via their contract work.<br><br>We considered the appropriateness of the related disclosures in note 26 in the group financial statement with the requirements of IFRS 3. | Based on procedures performed, we did not identify any evidence of material misstatement in the separately identifiable intangible assets recorded and measured in accordance with IFRS 3. |

The current year key audit matters are consistent with the prior year except for:

- Our considerations in relation to the Going Concern basis of preparation of the Annual Report and Accounts are discussed separately in our Audit Report. In the current year we do not consider Going Concern a key audit matter.
- Accounting treatment for Video Games Tax Relief (VGTR) credits is no longer a key audit matter. The accounting treatment and presentation was assessed in the prior year and remains consistent in the current year.
- Identification and measurement of separately identified intangible assets following the acquisition of Pipeworks Inc has been identified as a key audit matter this year as it relates to a specific transaction which occurred within the year.

Independent Auditor’s Report to the members of Sumo Group plc continued

## An overview of the scope of the parent company and group audits

### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We consider size, risk profile, the organisation of the group and effectiveness of group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements and to ensure we had adequate quantitative coverage of significant accounts in the financial statements of the reporting components of the Group, we selected 7 components covering entities in the UK, India and the US which represent the principal business units within the Group. Our initial scoping was reassessed following the Pipeworks Inc. acquisition to bring the above mentioned, newly acquired US component into scope.

Of the 7 components selected, we performed an audit of the complete financial information of 5 components (“full scope components”) which were selected based on their size or risk characteristics. For the remaining 2 components (“specific scope component”), we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 98% (FY19: 99%) of the Group’s adjusted profit before tax, 100% (FY19: 99%) of the Group's revenue and 98% (FY19: 99%) of the Group's total assets. For the current year, the full scope components contributed 88% (FY19: 90%) of the Group’s adjusted profit before tax, 96% (FY19: 99%) of the Group’s revenue and 95% (FY19: 97%) of the Group’s total assets. The specific scope components contributed 10% (FY19: 9%) of the Group’s adjusted profit before tax, 4% (FY19: 0%) of the Group’s revenue and 3% (FY19: 2%) of the Group’s total assets. The audit scope of these components may not have included testing of all significant accounts of the component, but will have contributed to the coverage of significant tested for the Group.

Of the remaining 7 components that together represent 2% (FY19: 1%) of the Group’s adjusted profit before tax none are individually greater than 1% of the Group’s adjusted profit before tax. For these components, we performed other procedures including analytical review to respond to any potential risks of material misstatement to the Group financial statements.

## Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY global network firms operating under our instruction. All of the audit procedures for full scope components were performed directly by the primary audit team, except for one component where procedures were completed by our US component team. For the specific scope component, where the work was performed by our Indian component team, we determined the appropriate level of involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole.

The primary team interacted regularly with the component teams. Where appropriate, during various stages of the audit, we reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Travel restrictions due to COVID-19 presented challenges to us in exercising sufficient and appropriate direction, supervision, oversight and review of the audit work performed by members of our component audit teams such that we have adequate involvement in their work.

Under normal circumstances, the primary team would visit our US component team during the audit. The purpose of this visit would be to discuss the audit approach with the component team and any issues arising from their work, meet with the management and review the component team’s audit work.

In planning our audit, we assumed a worst-case scenario where travel restrictions would persist throughout the period of the audit. As a result, we included incremental procedures described below that enabled the Group engagement team to fulfil its responsibilities under auditing standards to evaluate, review and oversee the work of the US component team on a remote basis. We issued group instructions and met virtually with our component team at the outset of the audit and maintained regular interaction throughout. We attended their closing meeting via video-call and performed a review of their reporting deliverables and key underlying workpapers.

During critical periods of the audit, we increased the use of online collaboration tools to facilitate team meetings, information sharing and the evaluation, review and oversight of the work being performed by our Group audit team.

## Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

## Materiality

The magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £425,000 (FY19 £380,000), which is approximately 5% (FY19: approximately 5%) of the Group's adjusted profit before tax. We believe that adjusted profit before tax provides us with the most relevant performance measure to the stakeholders of the entity. The adjustments made are:

- Exceptional expenses related to professional fees for acquisitions – £4,115,000
- Fair value loss on the contingent consideration – £2,706,000

We believe that this provides us with a materiality basis that is appropriately focussed on the users of the financial statements.

We determined materiality for the Parent Company to be £3,480,000 (FY19 £2,720,000), which is 2% of the Company's Equity. We believe that equity is an appropriate basis to determine materiality given the nature of the Parent Company as the holding company of the Group. Any balances in the Parent Company financial statements that were relevant to our audit of the consolidated Group were audited using an allocation of Group performance materiality.

During the course of our audit, we reassessed initial materiality and no changes were required.

## Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% of our planning materiality, namely £210,000 (FY19: £190,000). For the current year our judgment is that the percentage applied in calculating performance materiality should remain at 50%. This reflects prior year audit experience and the internal financial control environment.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £63,000 to £158,000.

## Reporting threshold

**An amount below which identified misstatements are considered as being clearly trivial.**

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £21,000 (FY19: £19,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

## Other information

The other information comprises the information included in the annual report set out on pages 1 to 66 other than the financial statements and our auditor's report thereon. The directors are responsible for the other information within the annual report.

Our opinion on the financial statements does not cover the other information and to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report to the members of Sumo Group plc
continued

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 66, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are those that relate to the reporting framework (IFRS, FRS 101 and the Companies Act 2006) and the relevant tax compliance regulations in the jurisdictions in which the group operates.
- We understood how Sumo Group plc is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes and papers provided to the Audit and Risk Committee as well as observation in Audit and Risk Committee meetings, as well as consideration of the results of our audit procedures across the group.

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from various parts of the business to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud and error.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved journal entry testing, with a focus on manual consolidation journals, and journals indicating large or unusual transactions based on our understanding of the business; enquiries of legal counsel, group management, subsidiary management at all full and specific scope components; and focused testing, including the procedures referred to in the key audit matters section above. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards and UK legislation
- Specific enquiries were made with the component teams to confirm any non-compliance with laws and regulations and this was reported through their audit deliverables based on the procedures detailed in the previous paragraph. Further, the group team communicated any instances of non-compliance with laws and regulations to component teams through regular interactions with local EY teams. There were no significant instances of non-compliance with laws and regulations.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Mark Morritt (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

30 March 2021

# Consolidated Income Statement

for the year ended 31 December 2020

| | Note | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|---|
| **Revenue** | 4 | 68,948 | 48,987 |
| Direct costs | | (44,414) | (32,409) |
| Video Games Tax Relief | | 6,942 | 7,350 |
| Direct costs (net) | 6 | (37,472) | (25,059) |
| **Gross profit** | | 31,476 | 23,928 |
| Operating expenses | 7 | (23,325) | (15,906) |
| Operating expenses – exceptional | 7 | (4,115) | (523) |
| Operating expenses – fair value loss on contingent consideration | 7 | (2,706) | – |
| Operating expenses – total | | (30,146) | (16,429) |
| **Group operating Profit** | | 1,330 | 7,499 |
| **Analysed as:** | | | |
| Adjusted EBITDA[1] | | 16,472 | 14,072 |
| Amortisation | 13 | (2,089) | (834) |
| Depreciation | 14 | (3,524) | (2,226) |
| Share-based payment charge | 20 | (4,977) | (2,684) |
| Investment in co-funded games expensed | 28 | (245) | (1,292) |
| Operating lease costs capitalised under IFRS16 | 28 | 1,548 | 986 |
| Foreign currency derivative contracts | 28 | 966 | – |
| Exceptional items | 7 | (4,115) | (523) |
| Fair value loss on contingent consideration | 7 | (2,706) | – |
| **Group operating Profit** | | 1,330 | 7,499 |
| Finance cost | 8 | (474) | (313) |
| Finance income | 9 | 4 | 253 |
| **Profit before taxation** | | 860 | 7,439 |
| Taxation | 11 | 785 | 117 |
| **Profit for the year attributable to equity shareholders** | | 1,645 | 7,556 |
| **Profit per share (pence)** | | | |
| Basic | 12 | 1.08 | 5.19 |
| Diluted | | 1.01 | 5.07 |

The notes on pages 81 to 113 form part of these Group financial statements.

**Note 1:** Adjusted EBITDA is a non-GAAP metric used by management and is not an IFRS disclosure. It is defined as statutory operating profit adding back amortisation, depreciation, share-based payment charge, investment in co-funded games expensed, exceptional items, the fair value loss on contingent consideration less the operating lease costs capitalised under IFRS 16 and foreign currency derivative contracts.

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Profit for the year attributable to equity shareholders | 1,645 | 7,556 |
| Other comprehensive expense | | |
| Exchange differences on retranslation of foreign operations | (4,146) | (89) |
| **Total other comprehensive expense** | (4,146) | (89) |
| **Total comprehensive (expense)/income for the year** | (2,501) | 7,467 |

The notes on pages 81 to 113 form part of these Group financial statements.

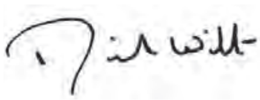
# Consolidated Balance Sheet

as at 31 December 2020

| | Note | 2020<br>£'000 | 2019<br>£'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Goodwill and other intangible assets | 13 | 102,172 | 23,975 |
| Property, plant and equipment | 14 | 20,578 | 11,715 |
| Deferred tax asset | 21 | 5,349 | 2,512 |
| **Total non-current assets** | | 128,099 | 38,202 |
| **Current assets** | | | |
| Trade and other receivables | 16 | 30,993 | 23,732 |
| Corporation tax receivable | 16 | – | 703 |
| Cash and cash equivalents | 17 | 10,816 | 12,890 |
| **Total current assets** | | 41,809 | 37,325 |
| **Total assets** | | 169,908 | 75,527 |
| **Current liabilities** | | | |
| Trade and other payables | 18 | 21,034 | 14,246 |
| Short term borrowings | 22 | 4,025 | – |
| Corporation tax payable | | 381 | – |
| **Total current liabilities** | | 25,440 | 14,246 |
| **Non-current liabilities** | | | |
| IFRS16 lease liabilities | 19 | 12,267 | 6,524 |
| Contingent consideration payable | 26 | 31,313 | – |
| Deferred tax liability | 21 | 5,037 | – |
| **Total liabilities** | | 74,057 | 20,770 |
| **Net assets** | | 95,851 | 54,757 |
| **Equity** | | | |
| Share capital | 24 | 1,693 | 1,506 |
| Share premium | 24 | 81,574 | 41,605 |
| Reverse acquisition reserve | | (60,623) | (60,623) |
| Merger relief reserve | | 590 | 590 |
| Foreign currency translation reserve | | (4,256) | (110) |
| Own shares | | (4,919) | (4,919) |
| Shares to be issued | | – | 1,514 |
| Retained earnings | | 81,792 | 75,194 |
| **Total equity** | | 95,851 | 54,757 |

The Group financial statements on pages 76 to 80 were approved by the Board of Directors on 30 March 2021 and were signed on its behalf by:

**Carl Cavers**
Director



**David Wilton**
Director

The notes on pages 81 to 113 form part of these Group financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

| | Note | Share capital £'000 | Share premium £'000 | Reverse acquisition reserve £'000 | Merger relief reserve £'000 | Foreign currency translation reserve £'000 | Own shares £'000 | Shares to be issued £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2019** | | 1,501 | 40,994 | (60,623) | 590 | (21) | (4,919) | – | 65,944 | 43,466 |
| Profit for the year | | – | – | – | – | – | – | – | 7,556 | 7,556 |
| Exchange differences on retranslation of foreign operations | | – | – | – | – | (89) | – | – | – | (89) |
| Total comprehensive income for the year | | – | – | – | – | (89) | – | – | 7,556 | 7,467 |
| Transactions with owners: | | | | | | | | | | |
| Issue of shares in year | | 5 | 611 | – | – | – | – | – | (616) | – |
| Shares to be issued in respect of deferred consideration | | – | – | – | – | – | – | 1,514 | – | 1,514 |
| Share-based payment transactions | | – | – | – | – | – | – | – | 2,310 | 2,310 |
| **Balance at 31 December 2019** | | 1,506 | 41,605 | (60,623) | 590 | (110) | (4,919) | 1,514 | 75,194 | 54,757 |
| Profit for the year | | – | – | – | – | – | – | – | 1,645 | 1,645 |
| Exchange differences on retranslation of foreign operations | | – | – | – | – | (4,146) | – | – | – | (4,146) |
| Total comprehensive expense for the year | | – | – | – | – | (4,146) | – | – | 1,645 | (2,501) |
| Transactions with owners: | | | | | | | | | | |
| Issue of shares in year – share placing | 24 | 76 | 13,040 | – | – | – | – | – | – | 13,116 |
| Issue of shares in year – acquisition of Red Kite Games Ltd | 24 | 12 | 1,502 | – | – | – | – | (1,514) | – | – |
| Issue of shares in year – acquisition of Pipeworks | 24 | 99 | 25,427 | – | – | – | – | – | – | 25,526 |
| Share-based payment transactions | | – | – | – | – | – | – | – | 4,953 | 4,953 |
| **Balance at 31 December 2020** | | 1,693 | 81,574 | (60,623) | 590 | (4,256) | (4,919) | – | 81,792 | 95,851 |

The notes on pages 81 to 113 form part of these Group financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2020

| | Note | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|---|
| Profit for the financial year | | 1,645 | 7,556 |
| Income tax | 11 | (785) | (117) |
| Finance income | 9 | (4) | (253) |
| Finance costs | 8 | 474 | 313 |
| **Operating profit** | | 1,330 | 7,499 |
| Depreciation charge | 14 | 3,524 | 2,226 |
| Amortisation of intangible assets | 13 | 2,089 | 834 |
| Amortisation of intangible assets – cost of sales | 13 | 161 | – |
| Fair value loss on contingent consideration | 7 | 2,706 | – |
| Decrease in bad debt provision | | – | (6) |
| Share-based payments charge | 20 | 4,962 | 2,580 |
| (Increase)/decrease in trade and other receivables | | (3,759) | 1,814 |
| Increase in trade and other payables | | 1,686 | 1,304 |
| **Cash flows from operating activities** | | 12,699 | 16,251 |
| Finance income | 9 | 4 | 9 |
| Finance costs | 8 | (328) | (216) |
| Tax received/(paid) | | 601 | (1,605) |
| **Net cash generated from operating activities** | | 12,976 | 14,439 |
| **Cash flows from investing activities** | | | |
| Purchase of intangible assets | 13 | (1,404) | (824) |
| Purchase of property, plant and equipment | 14 | (4,333) | (3,272) |
| Acquisition of subsidiary – net of cash acquired | 26 | (25,330) | 38 |
| **Net cash used in investing activities** | | (31,067) | (4,058) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | 24 | 13,659 | – |
| Transaction costs relating to the issue of shares | 24 | (543) | – |
| Proceeds of borrowings | 22 | 14,216 | – |
| Repayment of borrowings | 22 | (10,000) | – |
| Lease payments | | (1,003) | (1,021) |
| **Net cash generated from/(used in) financing activities** | | 16,329 | (1,021) |
| **Net (decrease)/increase in cash and cash equivalents** | | (1,762) | 9,360 |
| Cash and cash equivalents at the beginning of the year | | 12,890 | 3,730 |
| Foreign exchange | | (312) | (200) |
| **Cash and cash equivalents at the end of the year** | | 10,816 | 12,890 |

The notes on pages 81 to 113 form part of these Group financial statements.

# Notes to the Group Financial Statements

for the year ended 31 December 2020

## 1. General Information

Sumo Group plc (the 'Company') is registered in England and Wales as a public limited company limited by shares. The address of its registered office is 32 Jessops Riverside, Brightside Lane, Sheffield S9 2RX.

The principal activity of the Company and its subsidiaries (together the 'Group') is that of video games development.

The Group financial statements present 12 months results for the year ended 31 December 2020, and were approved by the Directors on 30 March 2021.

The Company financial statements are on pages 76 to 80.

## 2. Basis of preparation and accounting policies

The Group's principal accounting policies, all of which have been applied consistently to all the periods presented, are set out below.

### Basis of preparation

The Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as applicable to companies reporting under IFRS. The Group financial statements have been prepared on the going concern basis and on the historical cost convention modified for the revaluation of certain financial instruments.

The preparation of Group financial statements in conformity with IFRS requires the use of certain critical accounting estimates, which are outlined in the critical accounting estimates and judgements section of these accounting policies. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

### Going concern

These Group financial statements have been prepared on the going concern basis. The business activities of the Group, its current operations and those factors likely to affect its future results and development, together with a description of its financial position, are described in the Chairman's statement on page 4, the description of our business model and strategy on pages 6 to 22 and the Chief Executive's review on pages 23 to 28.

The principal risks and uncertainties affecting the Group and a summary of the steps taken to mitigate these risks are described on pages 41 to 44. Critical accounting assumptions and key sources of estimation uncertainty and judgement affecting the results and financial position disclosed in this annual report are discussed in Note 3 to the accounts.

### Directors' assessment of going concern:

The Group made a net profit before tax for the year of £0.9m, had Net Current Assets at the period end of £16.4m and a Net Cash Inflow from Operating Activities of £13.0m. The Group had gross cash balances of £15.0m at 30 March 2021, which includes an amount of £4.0m (USD $5.5m) drawn down on the Group's £30m bank facilities (£27m RCF; £3m overdraft), which are committed until November 2022 and require compliance with quarterly covenants.

Whilst the covid-19 situation is ongoing, the Group continues to maintain operational effectiveness and the Directors have considered the risks posed by the pandemic in the preparation of its financial forecasts. The Group did not take up any UK Government emergency funding or access related business assistance programmes (one VAT payment was deferred but paid in full before the end of the next VAT quarter). Primarily, the Group's day to day working capital requirements are expected to be met through existing cash resources and cash equivalents and receipts from its continuing business activities. The Group expects to have sufficient income and cash resources to fund operations at least until 30 September 2022. The Directors have reviewed the forecasts for this period and consider them to be achievable, given the high level of contracted and near contracted revenue visibility on its long term development contracts. The financial forecasts assess the impact on the Group's cash flow, banking facilities and headroom within its banking covenants. Furthermore, the Directors have assessed the future funding requirements of the Group and compared them with the level of available borrowing facilities.

As well as the strong liquidity position of the Group, other key factors supporting this conclusion are:

- The Group has strong revenue visibility, with 85% for Sumo Digital and 50% for Pipeworks of 2021 development revenue either contracted or near contracted.
- The business development pipeline is very strong reflecting the strength of the underlying market served by the Group.

Sensitivities have been applied to the Group's projections to assess the Group's ability to continue operating as a going concern until 30 September 2022. This process included a reverse 'stress test', whereby forecast future revenues are sensitised downwards with no mitigating cost control measures, to identify the break points in the Group's liquidity or banking covenants compliance. The break points identified in this exercise are considered to be remote scenarios as they are triggered only by a severe reduction in forecast revenue below that which is expected from existing contracted and near contracted projects. Any mitigating cost control measures have not been considered in the 'stress test' but would provide additional headroom. The reverse 'stress tests' include an estimated cash payment

## 2. Basis of preparation and accounting policies continued

in May 2022 in relation to contingent consideration on the acquisition of Pipeworks. Due to the severity of the break point scenarios modelled, it is assumed that Pipeworks' 2021 earnout performance criteria would not be met and contingent consideration relating to 2020 performance would be satisfied by the minimum amount of cash allowed under the Pipeworks acquisition agreement.

Accordingly, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and they have adopted the going concern basis of accounting in preparing the annual Group financial statements.

### New and amended standards and interpretations

There are no new or amended standards applicable in the year which have a material impact on the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

### Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group and are deconsolidated from the date control ceases.

Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated.

### Revenue

Revenue arises from the provision of game development services. To determine whether to recognise revenue, the Group follows a 5-step process as follows:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

Revenue is measured at transaction price, stated net of VAT and other sales related taxes.

#### Third party funded game development

There is generally one performance obligation with clients, being the development of a completed project or game and as such, the transaction price is allocated to the single distinct performance obligation. The transaction price is set out in the contract and is made up of fixed elements in the form of the development fee and guaranteed royalties and variable elements typically in the form of future royalties. At inception of each contract the Group begins by estimating the amount of the royalty to be received generally using the "expected value amount" approach. This amount is then included in the Group's estimate of the transaction price only to the extent that it is highly probable that a significant reversal of revenue will not occur once any uncertainty surrounding the royalty is resolved. In making this assessment, the Group considers the length of the royalty period, the extent of external factors including how the publisher brings the game to market, expected critic scores and other expected game launches. The highly probable nature of the variable consideration is reviewed for each game at each reporting cycle.

As the Group's development activity creates and enhances the game that the customer controls as the game is developed, revenue is recognised over time as the Group satisfies performance obligations by transferring the promised services to its clients in accordance with paragraph 35(b) of IFRS 15. The amount of revenue to recognise is determined based upon the input method that calculates actual costs incurred relative to the total budgeted costs for the project based upon a percentage of completion calculation.

Estimates of revenues, costs or the extent of progress towards completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known.

Where the original contract is modified, for example for a change to the scope or price of the contract, the nature of modification is considered as to whether it gives rise to a performance obligation distinct from the promises in the original contract. In cases where the modification gives rise to a distinct performance obligation, the modification is treated as a new contract in its own right and the 5-step model considered for this new contract. Where it does not, the modification is accounted for as if it was part of the original contract. The effect that the modifications have on the transaction price and the measure of progress towards the complete satisfaction of the performance obligation is recognised as an adjustment to revenue at the date of the contract modification. The adjustment to revenue is made on a cumulative catch-up basis.

## 2. Basis of preparation and accounting policies continued

The fixed elements of the transaction price are invoiced based upon a payment schedule. If the services rendered by the Group exceed the payments, a contract asset for amounts recoverable on contracts is recognised. If the payments exceed the services rendered, a contract liability representing advances for game development is recognised.

At 31 December 2020 there are no (2019: one) contracts that contain a financing component where the customer receives a benefit from the Group financing the transfer of services to the customer, generally over a period of time extending beyond 12 months. For arrangements with a significant financing component the transaction price is adjusted for both the length of time between when the Group delivers the services and when the customer pays for those services, and the effects of the time value of money using prevailing interest rates.

When determining what rate to use, management considers the rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception taking into account the credit characteristics of the customer.

#### Own-IP

The Group also creates its own concepts and IP. The accounting for Own-IP differs depending on whether the Group retains control over the IP or passes control over to clients.

**Own-IP – Development revenues and royalties**
Where the Group passes control of IP over to its client during development, fixed and variable revenues are recognised over time, consistent with third party-funded game development revenues.

**Own-IP – Game revenues**
Where the Group retains control of its own IP, during the development phase no revenue is recognised. Once the game is completed and launched the Group recognises the revenues as they are earned (at a point in time).

Intangible assets relating to Own-IP controlled by the Group are measured at cost and tested for impairment. Once the game is launched the intangible asset is amortised as the game generates revenues and is subject to review for impairment at all times.

The Group may opt to licence its Own-IP games to publishers. There is generally a single performance obligation to grant a licence over the developed game. The transaction price includes only fixed elements, typically in the form of a guaranteed royalty. Revenue is recognised at a point in time when the completed game is delivered and the customer has the right to use the asset. As the fixed element of the transaction price will be recognised in advance of payments being received, a contract asset will be recognised. Game revenues from the right to use asset will be recognised as earned, based upon the future sales of the game in accordance with paragraphs B63-B63B of IFRS 15.

At the point at which a contract is established with a publisher, the Own-IP intangible asset will be converted to a work in progress contract asset. In this scenario the asset would be derecognised at the point the game is handed over to the publisher.

### EBITDA and Adjusted EBITDA

Adjusted EBITDA is a non-GAAP metric used by management and is not an IFRS disclosure. It is defined as statutory operating profit adding back amortisation, depreciation, share-based payment charge, investment in co-funded games expensed, exceptional items, the fair value loss on contingent consideration less the operating lease costs capitalised under IFRS 16 and foreign currency derivative contracts.

Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA) and Adjusted EBITDA are non-GAAP measures used by management to assess the operating performance of the Group. Exceptional items, share-based payment charges, fair value movements on contingent consideration, the impact of IFRS 16 adoption and the investment in co-funded games expensed are excluded from EBITDA to calculate Adjusted EBITDA. For further explanation and details see note 28 and the Consolidated Income Statement.

The Directors primarily use the Adjusted EBITDA measure when making decisions about the Group's activities. As these are non-GAAP measures, EBITDA and Adjusted EBITDA measures used by other entities may not be calculated in the same way and hence may not be directly comparable.

### Foreign currency

Transactions in foreign currencies are translated into the Group's presentational currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss.

On consolidation, the assets and liabilities of foreign operations which have a functional currency other than sterling are translated into sterling at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of these subsidiary undertakings are translated at average rates applicable in the period. All resulting exchange differences are recognised in other comprehensive income and documented in a separate component of equity.

Notes to the Group Financial Statements for the year ended 31 December 2020
continued

# 2. Basis of preparation and accounting policies continued

### Classification of instruments issued by the Group

Instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciation is provided on the following basis:

| | |
|---|---|
| Leasehold improvements | Over period of lease |
| Fixtures and fittings | 25% straight line |
| Computer hardware | 3 to 5 years |
| Right of use assets | Over period of lease |

It has been assumed that all assets will be used until the end of their economic life. Freehold land is not depreciated.

### Intangible assets

All business combinations are accounted for by applying the purchase method. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately, or which arise from legal or contractual rights regardless of whether those rights are separable, and are initially recognised at fair value.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Computer software purchased separately, that does not form an integral part of related hardware, is capitalised at cost. Amortisation is charged to profit or loss over the estimated useful lives of intangible assets and is presented within operating expenses. Intangible assets are amortised from the date they are available for use.

The estimated useful lives, are as follows:

| | |
|---|---|
| Customer relationships | 5 years |
| Customer contracts | Over period of contract |
| Trademarks | 5 years |
| Game IP acquired | Over expected period of cash flows |
| Software | 2 years |

### Impairment

For goodwill that has an indefinite useful life, the recoverable amount is estimated annually. For other assets, the recoverable amount is only estimated when there is an indication that an impairment may have occurred. The recoverable amount is the higher of fair value less costs to sell and value in use.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

### Post-employment benefits

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss as incurred.

### Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

# 2. Basis of preparation and accounting policies continued

### Business combinations

When the Group completes a Business Combination, the consideration transferred for the acquisition and the identifiable assets and liabilities acquired are recognised at their fair values. The amount by which the consideration exceeds the net assets acquired is recognised as Goodwill. Where consideration is contingent on future events, an estimate is made of the most likely outcome in determining the fair value at the acquisition date. Contingent consideration classified as a liability is discounted to present value, and is remeasured to fair value at each reporting date and recognised in the P&L.

### Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to restore the underlying asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end the end of the lease term.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities.

### Lease Liabilities

The lease liability is initially measured at the present value of lease payments that were not paid at the commencement date, discounted using the Group's incremental borrowing rate.

The lease liability is measured at amortised cost using the effective interest method. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

If there is a remeasurement of the lease liability, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded directly in profit or loss if the carrying amount of the right of use asset is zero.

The Group presents right-of-use assets within property, plant and equipment.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less or leases for assets with a value of less than £5,000. These lease payments are expensed on a straight-line basis over the lease term.

### Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except to the extent that it arises on:

- the initial recognition of goodwill where the initial recognition exemption applies;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination;
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset in respect of tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Notes to the Group Financial Statements for the year ended 31 December 2020
continued

## 2. Basis of preparation and accounting policies continued

### Video Game Tax Relief

Video Game Tax Relief has only been recognised where management believe that a tax credit will be recoverable based on their experience of obtaining the relevant certification and the success of similar historical claims. Where the Group benefits from the VGTR claimed, such credits are recognised as part of direct costs, in order to reflect the substance of these credits to the Group and cash flows are presented within operating activities. The debit is recorded on the balance sheet as "VGTR recoverable" within current assets.

### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank borrowings that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

### Trade and other receivables

Trade and other receivables are initially recorded at fair value and thereafter are measured at amortised cost using the effective interest rate. A loss allowance for expected credit losses is recognised based upon the lifetime expected credit losses. This assessment is performed on a collective basis considering forward-looking information.

### Financial derivatives

The Group uses derivative financial instruments to hedge its exposure to risks arising from operational activities, principally foreign exchange risk. In accordance with treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. The Group does not hedge account for these items. Any gain or loss arising from derivative financial instruments is based on changes in fair value, which is determined by direct reference to active market transactions or using a valuation technique where no active market exists. At certain times the Group has foreign currency forward contracts that fall into this category.

### Trade and other payables

Trade payables are initially recorded at fair value and thereafter at amortised cost using the effective interest rate method.

### Segmental reporting

The Group reports its business activities in one area: video games development, which is reported in a manner consistent with the internal reporting to the Board of Directors, which has been identified as the chief operating decision maker. The Board of Directors consists of the Executive Directors and the Non-Executive Directors.

### Exceptional costs

The Group presents as exceptional costs on the face of the income statement, those significant items of expense, which, because of their size, nature and infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the period.

This facilitates comparison with prior periods and trends in financial performance more readily. Such costs include professional fees and other costs, directly related to the purchase of businesses and to restructuring within the group. Further information is provided in note 7.

### Own shares

The Group holds shares in an employee benefit trust. The consideration paid for the purchase of these shares is recognised directly in equity. Any disposals are calculated on a weighted average method with any gain or loss being recognised through reserves.

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the Group financial statements. Any assets held by the EBT cease to be recognised on the group balance sheet when the assets vest unconditionally in identified beneficiaries. The cost of purchasing own shares held by the EBT are shown as a deduction within shareholder's equity. The proceeds from the sale of own shares are recognised in shareholder's equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the income statement.

### Shares to be issued

Deferred shares represent deferred consideration on the acquisition of a subsidiary and have been classified as equity instruments. The shares are measured at fair value at the acquisition date. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the equity instruments.

### Retained earnings

Retained earnings includes all current and previous periods retained profits.

### Direct costs

Included within direct costs are all costs in connection with the development of games, including an allocation of studio management costs. Video Games Tax Relief is presented within direct costs as it is directly related to the level of expenditure incurred. See note 6.

### Share-based payments

The Group operates equity-settled share-based remuneration plans for its employees. None of the Group's plans are cash-settled.

## 2. Basis of preparation and accounting policies continued

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values using the Monte Carlo and Black Scholes models.

Where employees are rewarded using share-based payments, the fair value of employees' services is determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions). The fair value of the options, appraised at the grant date, includes the impact of market based vesting conditions.

All share-based remuneration is ultimately recognised as an expense in staff costs with a corresponding credit to retained earnings. Where vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any adjustment to cumulative share-based compensation resulting from a revision is recognised in the current period. The number of vested options ultimately exercised by holders does not impact the expense recorded in any period.

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal (or par) value of the shares issued with any excess being recorded as share premium.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 12).

The group provides for National Insurance liabilities on the exercise of share based payments over time, using the best estimate of the liability at the balance sheet date.

## 3. Critical accounting judgements and estimates

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

### Critical accounting estimates

#### Revenue recognition on development contracts

There are estimates made in respect of the recognition of revenue on customer contracts, including:

- Development revenue recognised over time is determined based upon estimates on the overall contract margin and percentage of completion of the contract at each period end. These estimates are based on contract value, historical experience and forecasts of future outcomes. These include specific estimates in respect of contracts for which variations may be in the process of being negotiated, and so the contracts are accounted for on the basis of the best estimate of the revenue expected to be received on the contract, which are all expected to be resolved relatively shortly after the financial year end. A reduction of 1% of the revenue recognised on contracts which were not complete at 31 December 2020 (and therefore subject to these estimates) would result in a £570,000 reduction in revenue;
- Certain development contracts include an element of variable consideration, such as royalty income, which is contingent on future game sales. Such variable consideration is only recognised to the extent that it is highly probable that a significant reversal of cumulative revenue recognised will not occur once the certainty related to the variable consideration is subsequently resolved. 2020 revenue includes £0.3m of variable consideration not yet received and contingent on future sales.

### Business combinations

When the Group completes a Business Combination, the consideration transferred for the acquisition and the identifiable assets and liabilities acquired are recognised at their fair values. The amount by which the consideration exceeds the net assets acquired is recognised as Goodwill. The application of accounting policies to business combinations involves the use of estimates. During the year the Group made one significant business combination when it acquired Pipeworks, Inc. The aspects of the transactions that required significant judgement

Notes to the Group Financial Statements for the year ended 31 December 2020
continued

## 3. Critical accounting judgements and estimates continued

were the measurement of intangible assets acquired, and the measurement of the fair value of contingent consideration.

The Group engaged external experts to support the valuations of intangible assets acquired. Management concluded that the intangibles acquired separate from Goodwill were Customer Contracts, Customer Relationships, Trademarks and Game IP. The fair values of these assets were determined with reference to the forecast future cashflows. These valuations involved the use of a number of assumptions including revenue forecasts, customer attrition and the application of an appropriate discount rate to future cash flows. The total fair value of intangible assets recognised on the acquisition of Pipeworks Inc was £21,425,000. Full analysis of the consideration transferred, assets and liabilities acquired and Goodwill recognised in business combinations are set out in note 26. Amounts recognised at 31 December 2020 are provisional due to the proximity of the acquisition date to the year end and will be finalised in the coming year.

The Directors review customer contracts and customer relationship assets on an annual basis which also involves an estimation of the length of the contract, an assessment of the relationship and an expected level of customer attrition. Details of the period end impairment review of Goodwill have been disclosed in note 13 to the Financial statements.

In determining the fair value of acquisition consideration which is contingent on future events, management is required to make estimates of earn out targets that will be achieved in the future. Estimates in respect of the achievement of earn outs are determined with reference to the budgets and forecasts of the acquired business. Management have prepared a number of scenarios and applied a weighting to these based on the expected likelihood of that scenario in determining the expected earn out. As some contingent consideration will be settled in shares, the fair value of the resulting liability is also measured with reference to the share price of the Group. The fair value of contingent consideration recognised on acquisition of Pipeworks was £28.5m.

Contingent consideration recognised as a liability is remeasured to fair value at each reporting date. During the period following acquisition, the Group recognised a loss due to an increase in the fair value of the liability of £4.2m driven by the increase in the market value of the Group's shares, offset by a foreign exchange gain as a result of the movement in exchange rates as the liability is denominated in US dollars. The Group also recognised £0.1m of interest on the unwinding of discounting on the liability.

### Video Games Tax Relief

The process of claiming Video Game Tax Relief requires estimates to be accrued at the period end. Whilst the Company undertakes a detailed exercise involving external professional support in calculating the accrual, these claims are subject to review and approval by HMRC prior to payment. In 2020, £3,910,000 of Video Game Tax Relief income has been recognised in respect of claims not yet reviewed and approved by HMRC, being £7,381,000 of Video Game Tax Relief receivable at the balance sheet date, of which £3,607,000 is reimbursable to clients on receipt.

### Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. Options with both market and non-market conditions are most impacted by these estimates. An increase in the assumption of fair value at grant date of 10% for this category of options would result in an increase in the cumulative IFRS2 charge of £85,000.

The share options charge is subject to an assumption about the number of options that will vest as a result of the expected achievement of certain non-market conditions. A 1% reduction in the percentage of lapses assumed in each option category in respect of the achievement of performance conditions would result in an increase in the cumulative IFRS2 charge of £48,000.

### Recognition of Deferred Tax assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies. A proportion of the deferred tax asset at 31 December 2020 is subject to a restricted period of overlapping profits. A reduction in future taxable profits of 10% would result in a reduction in the deferred tax asset recognised of £16,000.

### Accounting judgements

Judgements in applying accounting policies and key sources of estimation uncertainty: the following are the areas requiring the use of judgement that may significantly impact the financial statements.

# 3. Critical accounting judgements and estimates continued

## Revenue recognition on development contracts

There are a number of judgements in respect of the recognition of revenue on development contracts, including:

- the determination of the number of distinct separate performance obligations in a contract. This is based upon judgement around whether the customer can benefit from the use of the service on its own or together with other resources that are readily available to it, and also whether the promise to transfer the service is separately identifiable from other promises in the contract. As explained in the accounting policy for revenue, in most cases this results in the identification of a single performance obligation, being the development of a completed project or game;
- Whether the Group transfers control of the game over time, and therefore satisfies the performance obligation and recognises revenue over time. This requires judgement as to whether the customer controls the game as it is created and enhanced. As the customer approves the development work as it progresses, and is involved in directing the development activity, it is generally considered that control is transferred over time and revenue is recognised accordingly; for revenue contracts with a significant financing component the transaction price is adjusted for both the length of time between when the Group delivers the services and when the customer pays for those services, and the effects of the time value of money using prevailing interest rates. When determining what rate to use, management consider the rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception taking into account the credit characteristics of the customer. This involves a certain degree of judgement;
- variable consideration is constrained on contract inception until the time at which it is considered highly probable that the revenue will not reverse in future periods. As this determination includes a number of factors outside the control of the Group, the recognition of this revenue is an inherently difficult judgement, and may result in revenues being recognised in a later period than when the performance obligations were satisfied.

## Video Game Tax Relief

It is in the Directors' judgement that presenting Video Game Tax Relief as a deduction from direct costs best reflects the substance and nature of these Credits. The Directors have considered the requirements and key accounting indicators of both IAS20 (Accounting for Government Grants) and IAS12 (Income Taxes) and have determined that Video Game Tax Relief is most appropriately accounted for under IAS20. See note 6.

# 4. Segmental reporting

The trading operations of the Group are predominantly in video games development and are all continuing. This includes the activities of Sumo Digital Limited, Pipeworks Inc., Mistral Entertainment Limited, Sumo Video Games Private Limited, Cirrus Development Limited, Sumo Digital (Genus) Limited, Sumo Digital (Chili) Limited, Sumo Digital (Locus) Limited, Sumo Games Development Limited, Atomhawk Design Limited, Atomhawk Canada Limited, The Chinese Room Limited, Red Kite Games Limited and Lab42 Limited. The central activities, comprising services and assets provided to Group companies, are considered incidental to the activities of this single segment and have therefore not been shown as a separate operating segment but have been subsumed within video games development. The assets of the Group reside predominantly in the UK, with the exception of non-current and current assets with a net book value of £8.9m (2019: £0.4m) located in USA, India and Canada.

## Major clients

In 2020 there were 2 major clients that individually accounted for at least 10 percent of total revenues (2019: four clients). The revenues relating to these clients in 2020 were £17.3m and £10.0m (2019: £12.8m, £10.9m, £7.5m and £5.2m).

## Analysis of revenue

The amount of revenue from external clients can be disaggregated by location of the clients as shown below:

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| UK & Ireland | 13,707 | 16,622 |
| Europe | 5,543 | 5,440 |
| North America | 42,225 | 26,457 |
| Rest of the World | 7,473 | 468 |
| | 68,948 | 48,987 |

Notes to the Group Financial Statements for the year ended 31 December 2020
continued

# 4. Segmental reporting continued

## Revenue by IP origination

The Group's revenue can be disaggregated by considering the source of created intellectual property (IP) as shown below:

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Client-IP – Development | 55,367 | 31,315 |
| Client-IP – Royalty | 1,375 | 1,309 |
| **Total Client-IP** | 56,742 | 32,624 |
| | | |
| Own-IP – Development | 9,885 | 15,998 |
| Own-IP – Royalty | 1,855 | – |
| Own-IP – Game Revenues | 466 | 365 |
| **Total Own-IP** | 12,206 | 16,364 |
| **Total Revenue** | 68,948 | 48,987 |

The above categories of revenue are recognised over time, with the exception of 'Own-IP', which is recognised at a point in time.

On third party game development contracts, the estimated transaction price for the performance obligation includes both fixed ('development fees') and variable revenues (such as 'royalties') and is reassessed at each reporting date (with changes in the estimate recognised in the income statement), and recognised over time.

Client-IP includes concepts and IP commissioned or originated by clients for development by, or in partnership with, the Group and for which clients retain ownership of such IP after development is complete.

Own-IP includes concepts and IP originated by the Group. In some instances, the Group may transfer certain rights to such IP, originated by the Group, to the client for a finite period or in perpetuity, typically earning a combination of fixed consideration in the form of development revenues and variable consideration such as royalties or similar income.

Where the Group fully funds the development of its Own-IP and retains legal title to such IP, it will earn game revenues or similar income. The Group may, at times, licence such IP to clients with a view to maximising game revenues.

Royalty revenue of £3.2m (2019: £1.3m) includes £0.3m (2019: £1.0m) of variable consideration identified as part of the transaction price for performance obligations already satisfied at the year-end date. The amount has been constrained to reflect uncertainty in the variable consideration which will be resolved in future periods. This uncertainty relates to circumstances outside of the group's control such as future success of video games which the group has developed. Royalties also include amounts recognised in revenue in 2020 relating to performance obligations satisfied in previous periods for which the outcome was uncertain totalling £0.9m (2019: £0.3m).

The following aggregated amounts of transaction prices relate to the performance obligations from existing contracts that are unsatisfied or partially unsatisfied at 31 December 2020.

| | 2021 £'000 | 2022 £'000 |
|---|---|---|
| Revenue expected to be recognised | 58,280 | 38,457 |

## Assets and liabilities relating to contracts with clients

The Group has recognised the following asset and liabilities relating to contracts with clients:

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| Contract assets – amounts recoverable on contracts | 16 | 10,015 | 9,847 |
| Contract liabilities – advances for game development | 18 | 874 | 394 |

## 4. Segmental reporting continued

**Contract assets** – amounts recoverable on contracts represents contracts whereby the services rendered by the Group at the reporting date exceed the customer payments. Included within the above contract assets are amounts of variable consideration that are highly probable of not reversing of £0.3m (2019: £1.0m). In the event that this variable consideration is no longer considered probable, a provision for credit losses will be recorded. There are no provisions for credit losses in respect of contract assets at either year end.

In cases where the payments exceed the services rendered as at the balance sheet date, a contract liability is recognised for advances for game development.

**Contract liabilities** – advances for game development represent customer payments received in advance of performance obligations that are expected to be recognised as revenue in 2021. These amounts recognised will generally be utilised within the next reporting period.

## 5. Employees and directors

The average monthly number of persons (including Directors) employed in the Group during the period was:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| Management (Directors) | 3 | 3 |
| Non-executives (Directors) | 3 | 4 |
| Development | 760 | 615 |
| Administration | 109 | 76 |
| | 875 | 698 |

Staff costs (including Directors) are outlined below.

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Wages and salaries | 37,006 | 27,327 |
| Share-based payments | 4,977 | 2,684 |
| Defined contribution pension cost | 1,515 | 1,116 |
| Social security costs | 3,389 | 2,588 |
| Other employee health benefits | 591 | 376 |
| | 47,478 | 34,091 |

### Key management compensation

The following table details the aggregate compensation paid in respect of the key management, which is considered to be the Board.

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Salaries and other short-term employee benefits | 1,554 | 1,354 |
| Post-employment benefits | 39 | 32 |
| | 1,593 | 1,386 |

Notes to the Group Financial Statements for the year ended 31 December 2020 continued

## 5. Employees and directors continued

There are no defined benefit schemes for key management. Pension costs under defined contribution schemes are included in the post-employment benefits disclosed above.

The total remuneration of the Directors of the Company was £1.6m (2019: £1.4m). The highest paid Director received total emoluments of £0.5m (2019: £0.5m).

The number of Directors in respect of whose qualifying services shares were received or receivable during the year was:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| Number of Directors | – | 1 |

## 6. Direct costs (NET)

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Direct costs | 44,414 | 32,409 |
| Video Games Tax Relief | (6,942) | (7,350) |
| | 37,472 | 25,059 |

## 7. Expenses by nature

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Exceptional items | 4,115 | 523 |
| Employee benefit expense (note 5) | 47,478 | 34,091 |
| Depreciation charges (note 14) | 3,524 | 2,226 |
| Amortisation and impairment charges (note 13) | 2,089 | 834 |
| Fair value loss on contingent consideration | 2,706 | – |
| Operating lease payments | 212 | 200 |

### Exceptional items

Exceptional items include external costs in relation to:

- 2019 – professional advisor fees associated with the acquisition of Red Kite Games Limited (£157,000), transactions relating to restructuring costs (£153,000) and other ongoing acquisition activity (£213,000)
- 2020 – professional advisor fees associated with the acquisition of Pipeworks Inc (£2,889,000) the acquisition of Lab42 Limited (£119,000), and other ongoing acquisition activity (£1,107,000)

These items are considered to be material and exceptional in nature as they are non-recurring and are significant in size respective to the ongoing expenses of the group.

### Fair value loss on contingent consideration

Fair value loss on contingent consideration reflects the restatement to fair value of the liability recognised for consideration paid in 2022 which is contingent on future events. In 2020, this movement consists of an increase in the fair value of the liability of £4,205,000, offset by a gain on retranslation to year end foreign exchange rates of £1,499,000.

## 8. Finance cost

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Fair value movement on foreign exchange forward contracts | – | 97 |
| IFRS 16 lease interest | 196 | 149 |
| Bank and other interest | 132 | 67 |
| Unwind of interest on contingent consideration liability | 146 | – |
| Finance costs | 474 | 313 |

## 9. Finance income

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| IFRS 15 financing income | – | 244 |
| Interest income | 4 | 9 |
| Finance income | 4 | 253 |

## 10. Auditor's remuneration

During the year the Group (including its overseas subsidiaries) obtained the following services from the Company's auditors at costs as detailed below:

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Fees payable to Company's auditor and its associates for the audit of financial statements | 61 | 55 |
| Fees payable to Company's auditor and its associates for other services: | | |
| The audit of subsidiary financial statements | 262 | 145 |
| Audit related assurance services | – | – |
| Taxation compliance services | – | – |
| Taxation advisory services | – | – |
| Other assurance services | – | – |

Amounts paid to the Group's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed separately as the information is required to be disclosed on a consolidated basis.

Notes to the Group Financial Statements for the year ended 31 December 2020 continued

## 11. Taxation

The effective tax rate of the group for the period ended 31 December 2020 is (91)% (2019: (1.6)%)

| Analysis of credit in year | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| **Current tax** | | |
| Current taxation charge for the year | 975 | 92 |
| Adjustments for prior periods | (61) | (22) |
| **Total current tax** | 914 | 70 |
| **Deferred tax** | | |
| Origination and reversal of timing differences | (1001) | (68) |
| Effect of changes in tax rates | (296) | – |
| Adjustments in respect of prior periods | (402) | (119) |
| **Total deferred tax** | (1,699) | (187) |
| **Income tax credit reported in income statement** | (785) | (117) |
| **Reconciliation of total tax (credit):** | | |
| Profit/(loss) on ordinary activities before tax | 860 | 7,439 |
| Profit/(loss) on ordinary activities multiplied by the rate of corporation tax in the UK of 19.00% (2019: 19.00%) | 163 | 1,413 |
| Effects of: | | |
| Permanent differences | 1,751 | 192 |
| Share-based payments | (19) | (121) |
| Unrecognised deferred tax | 178 | 156 |
| Effects of different tax rates in overseas jurisdictions | (91) | 19 |
| Non-taxable income | (2,008) | (1,656) |
| Effect of change in rates | (296) | 21 |
| Adjustments in respect of previous periods | (463) | (141) |
| **Total taxation (credit)** | (785) | (117) |

Non-taxable income relates primarily to VGTR. Permanent differences relate primarily to exceptional items and fair value movements on contingent consideration.

Taxation on items taken directly to equity was a credit of £1,575,000 (2019: £272,000) and relates to deferred tax on share option schemes and transitional adjustments on the implementation of IFRS16.

Adjustments in respect of prior periods relate to the utilisation losses for which the deferred tax asset was unrecognised at 31 December 2019 due to uncertainty over recoverability.

### Factors that may affect future tax charges

The standard rate of UK corporation tax is 19% and this took effect from 1 April 2017. The 2016 Finance Act introduced a UK corporation tax rate of 17% from 1 April 2020. However on 11 March 2020, the 2020 UK Budget reversed the reduction in the corporation tax rate from 19% to 17%. This reversal was substantively enacted on the same date.

Accordingly, these rates are applicable in the measurements of the deferred tax assets and liabilities at 31 December 2020.

## 12. Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to equity shareholders by the weighted average number of ordinary shares in issue.

When calculating basic earnings per share, the weighted average number of shares has been adjusted to exclude shares held in the Employee Benefit Trust (4,618,735 at 31 December 2020 and 31 December 2019).

When calculating diluted earnings per share, the weighted average number of shares is adjusted to assume conversion of 8,203,478 (2019: 689,726) of potentially dilutive options granted to employees and 460,175 of shares to be issued in respect of deferred and contingent consideration on acquisition of Red Kite Games Limited and Pipeworks Inc where conditions upon which the shares will be issued have been met.

The calculation of basic and diluted profit/(loss) per share is based on the following data:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| **Earnings (£'000)** | | |
| Earnings for the purposes of basic and diluted earnings per share being profit for the year attributable to equity shareholders | 1,645 | 7,556 |
| **Number of shares** | | |
| Weighted average number of shares for the purposes of basic earnings per share | 152,500,624 | 145,720,683 |
| Weighted average dilutive effect of warrants | 1,450,000 | 1,450,000 |
| Weighted average dilutive effect of conditional share awards | 8,203,478 | 689,727 |
| Weighted average dilutive effect of deferred consideration | 460,175 | 1,064,033 |
| Weighted average number of shares for the purposes of diluted earnings per share | 162,614,277 | 148,924,443 |
| **Earnings/(losses) per ordinary share (pence)** | | |
| Basic earnings/ (loss) per ordinary share | 1.08 | 5.19 |
| Diluted earnings/ (loss) per ordinary share | 1.01 | 5.07 |

Notes to the Group Financial Statements for the year ended 31 December 2020
continued

## 13. Goodwill and other intangible assets

| | Software £'000 | Intellectual Property £'000 | Customer Contracts £'000 | Customer Relationships £'000 | Trade Marks £'000 | Goodwill £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | |
| As at 1 January 2019 | 882 | – | 14,722 | 21,678 | – | 21,379 | 58,661 |
| Additions | 476 | 348 | – | – | – | 15 | 839 |
| Acquisition of subsidiary | – | – | 135 | – | – | 1,457 | 1,592 |
| As at 31 December 2019 | 1,358 | 348 | 14,857 | 21,678 | – | 22,851 | 61,092 |
| Additions | 248 | 1,156 | – | – | – | – | 1,404 |
| Acquisition of subsidiary (note 26) | – | – | 33 | 25 | – | 5 | 63 |
| Acquisition of subsidiary (note 26) | 9 | 465 | 2,792 | 13,408 | 4,750 | 61,841 | 83,265 |
| Effects of translation to presentation currency | – | (22) | (98) | (676) | (239) | (3,250) | (4,285) |
| Derecognition | – | – | (14,857) | (21,678) | – | – | (36,535) |
| **As at 31 December 2020** | 1,615 | 1,947 | 2,727 | 12,757 | 4,511 | 81,447 | 105,004 |
| **AMORTISATION** | | | | | | | |
| As at 1 January 2019 | 368 | – | 14,298 | 21,617 | – | – | 36,283 |
| Charge for the year | 214 | – | 559 | 61 | – | – | 834 |
| As at 31 December 2019 | 582 | – | 14,857 | 21,678 | – | – | 37,117 |
| Charge for the year | 347 | – | 962 | 584 | 196 | – | 2,089 |
| Charge for the year – cost of sales | – | 161 | – | – | – | – | 161 |
| Derecognition | – | – | (14,857) | (21,678) | – | – | (36,535) |
| **As at 31 December 2020** | 929 | 161 | 962 | 584 | 196 | – | 2,832 |
| **NET BOOK VALUE** | | | | | | | |
| As at 31 December 2019 | 776 | 348 | – | – | – | 22,851 | 23,975 |
| **As at 31 December 2020** | 686 | 1,786 | 1,765 | 12,173 | 4,315 | 81,447 | 102,172 |

The customer contracts represent contracted revenues acquired as part of business combinations, and customer relationships represent the expected future cash flows from revenues with existing customers that are uncontracted at the acquisition date. Where the impact of discounting is significant, the valuation used the discounted cash flow method, based on estimated operating business profit margins. The discount rate applied at the time to the future cash flows was 12.1%

Goodwill and other intangible assets have been tested for impairment. The method, key assumptions and results of the impairment review are detailed below:

Goodwill is attributed to two cash generating units – UK and US operating businesses. Goodwill and other intangible assets of the UK cash generating unit have been tested for impairment by assessing the value in use of the CGU. The value-in-use calculations were based on projected cash flows in perpetuity. Cash flows were based on a three-year forecast with growth rates between 10% and 15%. Subsequent years were based on a reduced rate of growth of 2.0% into perpetuity. These growth rates are based on past experience, and market conditions and discount rates are consistent with external information. The growth rates shown are the average applied to the cash flows of the individual CGUs and do not form a basis for estimating the consolidated profits of the Group in the future.

The discount rate used to test the cash generating units was the Group's pre-tax WACC of 12% (2019: 11%).

As a result of these tests no impairment was considered necessary. Due to the proximity of the acquisition to the reporting date, no impairment test has been performed on Goodwill arising on the acquisition of the US cash generating unit.

All amortisation charges have been treated as an expense and charged to operating expenses in the income statement.

## 14. Property, plant and equipment

| | Leasehold improvements £'000 | Fixtures and fittings £'000 | Computer hardware £'000 | Right of use asset £'000 | Total £'000 |
|---|---|---|---|---|---|
| **COST** | | | | | |
| As at 1 January 2019 | 1,312 | 734 | 2,409 | – | 4,455 |
| Additions | 584 | 210 | 2,894 | 7,725 | 11,413 |
| Transfers | (409) | 409 | – | – | – |
| Acquisition of subsidiary (note 26) | – | – | 25 | – | 25 |
| As at 31 December 2019 | 1,487 | 1,353 | 5,328 | 7,725 | 15,893 |
| Adjustment to opening position[1] | – | – | – | (685) | (685) |
| Additions | 2,029 | 114 | 2,048 | 4,358 | 8,549 |
| Transfers | (18) | 18 | – | – | – |
| Acquisition of subsidiary (note 26) | – | – | 9 | 135 | 144 |
| Acquisition of subsidiary (note 26) | 625 | 64 | 232 | 3,479 | 4,400 |
| Effect of translation to presentation currency | – | – | – | (25) | (25) |
| Disposals | – | – | – | (288) | (288) |
| **As at 31 December 2020** | 4,123 | 1,549 | 7,617 | 14,699 | 27,988 |
| **DEPRECIATION** | | | | | |
| As at 1 January 2019 | 278 | 227 | 1,454 | – | 1,959 |
| Charge for the period | 290 | 269 | 762 | 905 | 2,226 |
| Effect of translation to presentation currency | – | – | (7) | – | (7) |
| As at 31 December 2019 | 568 | 496 | 2,209 | 905 | 4,178 |
| Charge for the period | 392 | 354 | 1,423 | 1,355 | 3,524 |
| Effect of translation to presentation currency | – | – | 5 | (9) | (4) |
| Disposals | – | – | – | (288) | (288) |
| **As at 31 December 2020** | 960 | 850 | 3,637 | 1,963 | 7,410 |
| **NET BOOK VALUE** | | | | | |
| As at 31 December 2019 | 919 | 857 | 3,119 | 6,820 | 11,715 |
| **As at 31 December 2020** | 3,163 | 699 | 3,980 | 12,736 | 20,578 |

Depreciation charges are allocated to operating expenses in the income statement.

**Note 1:** The comparative amounts have not been restated for this adjustment as, in the directors' opinion, this is immaterial to the Financial Statements

## Notes to the Group Financial Statements for the year ended 31 December 2020 continued

# 15. Investments

Details of the investments in which the Group holds 20% or more of the nominal value of any class of share capital are as follows:

| | Class of share capital held | Proportion held By Parent Company | Proportion held By the Group | Nature of Business |
|---|---|---|---|---|
| Project Republica Topco Limited | Ordinary | 100% | 100% | Holding company |
| Project Republica Bidco Limited | Ordinary | – | 100% | Holding company |
| Sumo Digital Holdings Limited | Ordinary | – | 100% | Holding company |
| Sumo Digital Group Limited | Ordinary | – | 100% | Holding company |
| Sumo Digital Entertainment Limited | Ordinary | – | 100% | Holding company |
| Sumo Digital Limited | Ordinary | – | 100% | Video game development |
| Sumo Digital (Genus) Limited | Ordinary | – | 100% | Video game development |
| Cirrus Development Limited | Ordinary | – | 100% | Video game development |
| Aghoco 1337 Limited | Ordinary | – | 100% | Employee benefit trust trustee |
| Mistral Entertainment Limited | Ordinary | – | 100% | Video game development |
| Sumo Video Games Private Limited | Ordinary | – | 100% | Video game development |
| Sumo Games Development Limited (formerly Riverside Games Limited) | Ordinary | – | 100% | Video game development |
| Atomhawk Design Limited | Ordinary | – | 100% | Visual design |
| Atomhawk Canada Limited | Ordinary | – | 100% | Visual design |
| The Chinese Room Limited | Ordinary | – | 100% | Video game development |
| Riverside Games Limited (formerly Aghoco 1788 Limited) | Ordinary | – | 100% | Dormant |
| Sumo Digital (Locus) Limited | Ordinary | – | 100% | Video game development |
| Red Kite Games Limited | Ordinary | – | 100% | Video game development |
| Red Kite Games Development Limited | Ordinary | – | 100% | Video game development |
| Sumo Digital (Chili) Limited | Ordinary | – | 100% | Video game development |
| Lab42 Limited | Ordinary | – | 100% | Video game development |
| AGHOCO 1951 Limited | Ordinary | – | 100% | Dormant |
| AGHOCO 1952 Limited | Ordinary | – | 100% | Dormant |
| Secret Mode Limited | Ordinary | – | 100% | Dormant |
| Pacman Finco Limited | Ordinary | – | 100% | Financing company |
| Pacman Acquisition Sub, Inc | Ordinary | – | 100% | Holding company |
| Pipeworks, Inc | Ordinary | – | 100% | Video game development |

All the companies listed above are incorporated in England and Wales, and have a registered address of 32 Jessops Riverside, Brightside Lane, Sheffield, S9 2RX, with the following exceptions:

| Company | Country of Incorporation | Address |
|---|---|---|
| Sumo Video Games Private Limited | India | MCCIA Trade Tower, B Building, 205-206, Senapati Bapat Rd, Chattushringi, Gokhalenagar, Pune, Maharashtra 411016 |
| Atomhawk Canada Limited | Canada | Suite 678, 999 Canada Place, Vancouver, British Columbia, V6C 3E1 |
| Pipeworks, Inc | USA | 133 W. Broadway, Eugene, Oregon, 97401 |
| Pacman Acquisition Sub, Inc | USA | 133 W. Broadway, Eugene, Oregon, 97401 |

There are no restrictions on the Group's ability to access or use the assets and settle the liabilities of the Group's subsidiaries.

## 16. Trade and other receivables

| | As at 31 December 2020 £'000 | As at 31 December 2019 £'000 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade receivables not past due | 9,408 | 5,316 |
| Trade receivables past due | 890 | 470 |
| Trade receivables past due and impaired | 10 | 2 |
| Less provision for trade receivables | (10) | (2) |
| **Trade receivables net** | 10,298 | 5,786 |
| Prepayments | 1,780 | 1,643 |
| Other debtors | 1,519 | – |
| VGTR recoverable | 7,381 | 5,729 |
| Contract assets – amounts recoverable on contracts | 10,015 | 9,847 |
| Work in progress on self-published titles | – | 727 |
| Total trade and other receivables | 30,993 | 23,732 |
| Corporation tax receivable | – | 703 |
| Total receivables | 30,993 | 24,435 |

Trade and other receivables are all current and any fair value difference is not material. A loss allowance for expected credit losses is recognised based upon the lifetime expected credit losses in cases where the credit risk on trade and other receivables has increased significantly since initial recognition. In cases where the credit risk has not increased significantly, the Group measures the loss allowance at an amount equal to the 12-month expected credit loss. This assessment is performed on a collective basis considering forward-looking information.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

| | As at 31 December 2020 £'000 | As at 31 December 2019 £'000 |
|---|---|---|
| Sterling | 24,550 | 23,022 |
| United States Dollar | 6,053 | 1,413 |
| Indian Rupees | 384 | – |
| Canadian Dollar | 6 | – |
| | 30,993 | 24,435 |

Movements on the Group's provision for impairment of trade receivables are as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| At beginning of period | 2 | 8 |
| Provision for receivables impairment | 10 | – |
| Receivables written off during the year as uncollectable | – | – |
| Unused amounts reversed | (2) | (6) |
| At 31 December | 10 | 2 |

The creation and release of provision for credit losses have been included in 'other expenses' in the income statement (note 7). Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets and therefore no provisions for credit losses have been recorded. The Group contracts with clients with very low credit risk and the history of credit losses has been negligible, as demonstrated by the tables above. With this in mind, there are not considered to be any significant degree of judgement in the calculation of credit loss provisions.

Notes to the Group Financial Statements for the year ended 31 December 2020
continued

## 17. Cash and cash equivalents

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Cash at bank and in hand | 10,816 | 12,890 |

The following amounts were held in foreign currencies:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| British Pound | 8,208 | 11,890 |
| Canadian Dollar | 215 | 128 |
| United States Dollar | 2,011 | 463 |
| Indian Rupee | 381 | 395 |
| Euro | 1 | 14 |
| | 10,816 | 12,890 |

## 18. Trade and other payables

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Trade payables | 4,160 | 3,103 |
| Contract liabilities | 874 | 394 |
| Other tax and social security | 1,374 | 1,114 |
| VGTR to be reimbursed to customers | 3,607 | 1,298 |
| Provision for national insurance on share based payments | 2,541 | 1,111 |
| Other payables and accruals | 7,102 | 6,410 |
| IFRS16 lease liabilities | 1,376 | 816 |
| | 21,034 | 14,246 |

The fair value of IFRS16 lease liabilities reflects the net present value of minimum future lease payments. The fair value of other financial liabilities approximates their carrying value due to short maturities.

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| British Pound | 16,658 | 13,714 |
| Euro | – | 179 |
| United States Dollar | 3,835 | 104 |
| Indian Rupee | 477 | 205 |
| Australian Dollar | – | 8 |
| Canadian Dollar | 64 | 36 |
| | 21,034 | 14,246 |

# 19. Leases

## IFRS 16 Lease liability

The leases held by the Group relate to leased land and buildings, plant and machinery and motor vehicles, as set out below. There are no variable lease payments, extension or termination options or residual value guarantees and there are no leases not yet commenced to which the Group is committed.

## Amounts recognised in the Consolidated Statement of Financial Position

The balance sheet shows the following amounts relating to leases:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| **Right of use assets** | | |
| Leased land and buildings | 12,849 | 6,791 |
| Motor vehicles | – | 29 |
| | 12,849 | 6,820 |

These are included within "Property, plant and equipment" in the Consolidated Statement of Financial Position.

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| **Lease liabilities** | | |
| **Maturity analysis** | | |
| Within one year | 1,376 | 816 |
| In one to five years | 5,975 | 3,436 |
| In more than five years | 6,292 | 3,088 |
| **Total lease liabilities** | 13,643 | 7,340 |
| Current | 1,376 | 816 |
| Non-current | 12,267 | 6,524 |

## Amounts recognised in the Consolidated Income Statement

The Consolidated Income Statement shows the following amounts relating to leases:

| | 31 December 2020 £'000 | 31 December 2019 £'000 |
|---|---|---|
| **Depreciation charge of right of use assets** | | |
| Leased land and buildings | 1,335 | 882 |
| Motor vehicles | – | 23 |
| | 1,335 | 905 |
| Interest expense (included in finance costs) | 196 | 149 |
| Expenses relating to short term/low value leases | | |
| (included in direct costs / operating expenses) | 212 | 200 |

Notes to the Group Financial Statements for the year ended 31 December 2020
continued

## 20. Share-based payments

In the year ended 31 December 2020 the Group operated two equity-settled share-based payment plans as described below.

The Group recognised total expenses of £4,977,000 (2019: £2,684,000) in respect of equity-settled share-based payment transactions in the year ended 31 December 2020 of which £1,597,000 related to accrued national insurance costs (2019: £531,000).

### The Sumo Group plc Long Term Incentive Plan (the 'LTIP')

The Group operates a long-term incentive plan for senior executives, further details of which can be found in the Directors' Remuneration Report in the Group financial statements.

The Group has made awards to certain Directors and employees.

The vesting of some of these awards is subject to the Group achieving certain performance targets under the LTIP, as set out in the Directors' Remuneration Report and are based on the Group meeting the adjusted earnings per share (AEPS) and (in some cases) total shareholder return (TSR) conditions in the following weightings.

2018 and early 2019 awards:

| Performance condition | Tier 2-4 participants Proportion of award | Tier 1 participants Proportion of award |
|---|---|---|
| Cumulative AEPS | 100% | 35% |
| Cumulative TSR | – | 65% |

December 2019 and 2020 awards:

| Performance condition | Part A participants | Part B Participants | Part C participants |
|---|---|---|---|
| Continued employment only | 100% | 50% | - |
| Cumulative TSR | – | 50% | 100% |

Details of the maximum total number of ordinary shares, which may be issued in future periods in respect of awards outstanding at 31 December 2020 is shown below.

| | 31 December 2020 Number of shares | 31 December 2019 Number of shares |
|---|---|---|
| At 1 January | 9,640,194 | 9,581,278 |
| Granted in the year | 1,417,060 | 1,009,371 |
| Exercised in the year | (40,000) | (519,961) |
| Lapsed/forfeited in the year - leavers | (281,135) | (430,494) |
| Lapsed/forfeited in the year – performance conditions not satisfied | (654,966) | – |
| At 31 December | 10,081,153 | 9,640,194 |

Options over 3,060,342 shares are subject to TSR performance conditions, options over 5,525,226 shares are subject to AEPS performance conditions, and the remaining shares are subject only to continued employment by the Group (2019: Options over 3,708,435 shares are subject to both the AEPS and TSR performance conditions and the remainder were subject only to the AEPS performance condition)

The estimate of the fair value of the services received in return for the awards is measured based on the Black Scholes or Monte Carlo model. The aggregate of the estimated fair values of the awards at 31 December 2020 shown above is £1.01 (2019: £0.95). The fair value of the TSR award takes into account the likelihood of achieving the performance conditions.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2020 was 0.4 years (2019: 1.3 years).

The weighted average fair value of options granted during the year was £1.56 (2019: £1.39).

All options have an exercise price of £nil.

## 20. Share-based payments continued

For awards granted in the current year, the inputs into the Monte Carlo models are as follows:

| | TSR condition Year ended 31 December 2020 | AEPS condition Year ended 31 December 2020 | TSR condition Year ended 31 December 2019 | AEPS condition Year ended 31 December 2019 |
|---|---|---|---|---|
| Share price at grant date | £2.00 to £2.55 | n/a | n/a | £1.27 to £1.60 |
| Exercise price | nil | n/a | n/a | £nil |
| Expected volatility | 46% | n/a | n/a | – |
| Expected life | 3 years | n/a | n/a | 3 years |
| Expected dividend yield | nil | n/a | n/a | – |
| Risk-free interest rate | 0.86% | n/a | n/a | – |
| Fair value per option | £1.07 to £1.63 | n/a | n/a | £1.26 to £1.60 |

Expected volatility was determined using the Group's own share price volatility. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

### Share Incentive Plan (SIP)

The Group operates an all-employee share ownership plan. Under the SIP, the Group has made awards of matching shares to certain employees which are conditional on length of service.

Details of the maximum total number of ordinary shares subject to conditional share awards outstanding at 31 December 2020 is shown below.

| | 31 December 2020 Number of conditional shares | 31 December 2019 Number of conditional shares |
|---|---|---|
| At 1 January | 108,856 | 86,087 |
| Granted in the year | 16,005 | 24,455 |
| Lapsed/forfeited in the year | – | (1,686) |
| At 31 December | 124,861 | 108,856 |

The estimate of the fair value of the services received in return for the conditional share awards is measured based on a Black Scholes model. The aggregate of the estimated fair values of the awards at 31 December 2020 shown above is £2.05 (2019: £1.69), before taking into account the likelihood of achieving non-market-based performance conditions.

For awards granted in the 2020 year, the inputs into the Black Scholes model are as follows:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Share price at grant date | £1.87 to £3.37 | £1.28 to £1.67 |
| Exercise price | £nil | £nil |
| Expected volatility | – | – |
| Expected life | 3 years | 3 years |
| Expected dividend yield | – | – |
| Risk-free interest rate | – | – |
| Fair value per option | £1.87 to £3.37 | £1.28 to £1.67 |

Expected volatility was determined using the median volatility of comparator sector companies. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Notes to the Group Financial Statements for the year ended 31 December 2020 continued

## 21. Deferred tax

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Asset at beginning of period | 2,512 | 2,053 |
| Credit to income statement | 831 | 187 |
| Credit to equity | 1,575 | 272 |
| Adjustments in respect of prior periods | 402 | – |
| Foreign exchange adjustments | 2 | 2 |
| On acquisition of subsidiary | 27 | (2) |
| Asset at 31 December | 5,349 | 2,512 |
| The deferred tax asset relates to the following: | | |
| Accelerated capital allowances on property, plant & equipment | 249 | (53) |
| On losses | 967 | 1,110 |
| On share-based payments and other timing differences | 4,133 | 1,455 |
| | 5,349 | 2,512 |

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Liability at beginning of period | – | – |
| On acquisition of subsidiary | 5,782 | – |
| Charge to income statement | (465) | – |
| Foreign exchange adjustments (in equity) | (280) | – |
| Asset at 31 December | 5,037 | – |

The deferred tax liability relates to intangible assets arising on acquisition of a subsidiary.

The Group has unrecognised deferred tax assets on losses of £1,132,000 (2019: £977,000)

## 22. Borrowings

The Group holds an Overdraft Facility of £3,000,000 and a Revolving Credit Facility with Clydesdale Bank plc of up to £27,000,000. The Group drew down £10m on the Revolving Credit Facility in March 2020 and this was repaid in June 2020. An amount of US$5.5m was drawn down in October 2020 and remains outstanding at 31 December 2020.

| Current interest-bearing loans & borrowings | Interest rate | Maturity | As at 31 December 2020 £'000 | As at 31 December 2019 £'000 |
|---|---|---|---|---|
| Revolving Credit Facility | LIBOR +1.5% | Jan 2021 | 4,025 | – |

## 23. Financial risk management

The Group uses various financial instruments. These include loans, cash, forward foreign exchange contracts, issued equity investments and various items, such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The existence of these financial instruments exposes the Group to a number of financial risks, which are described in more detail below.

The main risks arising from the Group's financial instruments are market risk, cash flow interest rate risk, credit risk and liquidity risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

### Market risk

Market risk encompasses three types of risk, being currency risk, interest rate risk and price risk. In this instance price risk has been ignored as it is not considered a material risk to the business. The Group's policies for managing interest rate risk are set out in the subsection entitled "interest rate risk" below.

### Currency risk

The Group contracts with certain clients in Euros and US Dollars and manages this foreign currency risk using forward foreign exchange contracts which match the expected receipt of foreign currency income. The Group is exposed to currency risk on the retranslation of its foreign operations in the US following the acquisition of Pipeworks inc. The Group manages this risk via foreign currency borrowings which partially offset the external net assets of these foreign operations.

### Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs by closely managing the cash balance and by investing cash assets safely and profitably.

The Group policy throughout the period has been to ensure continuity of funding. Short-term flexibility is achieved by revolving working capital facilities.

The table below analyses the Group's non-derivative and derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

| At 31 December 2020 | Less than 1 year £'000 | Between 1 and 2 years £'000 | Between 2 and 5 years £'000 | Over 5 years £'000 |
|---|---|---|---|---|
| Borrowings | 4,025 | – | – | – |
| IFRS16 lease liabilities | 1,376 | 1,400 | 4,575 | 6,292 |
| Trade and other payables | 20,483 | – | – | – |
| Foreign currency forward contracts | (327) | (590) | | |

| At 31 December 2019 | Less than 1 year £'000 | Between 1 and 2 years £'000 | Between 2 and 5 years £'000 | Over 5 years £'000 |
|---|---|---|---|---|
| Borrowings | – | – | – | – |
| IFRS16 lease liabilities | 816 | 948 | 2,488 | 3,088 |
| Trade and other payables | 13,430 | – | – | – |

Notes to the Group Financial Statements for the year ended 31 December 2020
continued

# 23. Financial risk management continued

## Interest rate risk

The Group finances its operations through retained profits. The Directors' policy to manage interest rate fluctuations is to regularly review the costs of capital and the risks associated with each class of capital, and to maintain an appropriate mix between fixed and floating rate borrowings.

Sensitivity to interest rate fluctuations

The Group has an outstanding debt of £4,025,000 on its Revolving Credit Facility at the balance sheet date which is subject to a variable interest rate. An increase in interest rate of 50 basis points would reduce profit before tax by £5,000 for the three month draw down period.

## Credit risk

The Group's principal financial assets are cash and trade receivables. The credit risk associated with cash is limited, as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from the Group's trade receivables and contract assets. In order to manage credit risk the Directors set limits for clients based on a combination of payment history and third party credit references. Client credit limits and contract assets are reviewed on a regular basis in conjunction with debt ageing and collection history.

The Directors consider that certain of the Group's trade receivables were impaired for the period ended 31 December 2020 and, accordingly, a provision of £10,000 has been recognised. See note 16 for further information on financial assets that are past due.

## Changes in liabilities arising from financing activities

| | As at 31 December 2019 £'000 | Cash flows £'000 | Foreign exchange movements £'000 | Acquisition of subsidiary £'000 | New leases £'000 | Remeasure-ments £'000 | Interest | Other £'000 | As at 31 December 2020 £'000 |
|---|---|---|---|---|---|---|---|---|---|
| Borrowings | – | 4,216 | (191) | – | – | – | | – | 4,025 |
| Current lease liabilities | 816 | (1,199) | – | 265 | 219 | – | 196 | 1,079 | 1,376 |
| Non-current lease liabilities | 6,524 | – | – | 3,348 | 4,140 | (696) | | (1,049) | 12,267 |
| | 7,340 | | | | | | | | 17,779 |

The Group drew down £10m on it's revolving credit facility in March 2020 and this amount was repaid in June 2020. A further short term drawdown was made on the facility in October 2020 of $5.5m which remains outstanding at the year end.

Remeasurements of lease liabilities relate to changes in the cash rental payments due on the lease.

The 'other' column includes the reclassification of leases from non-current due to the passage of time and the accrual of interest on lease liabilities.

# 23. Financial risk management continued

## Summary of financial assets and liabilities by category

The carrying amount of financial assets and liabilities recognised at the balance sheet date of the reporting periods under review may also be categorised as follows:

| | As at 31 December 2020 £'000 | As at 31 December 2019 £'000 |
|---|---|---|
| **Financial assets** | | |
| Trade and other receivables | 10,298 | 5,786 |
| Amounts recoverable on contracts | 10,015 | 9,847 |
| VGTR recoverable | 7,381 | 5,729 |
| Cash and cash equivalents | 10,816 | 12,890 |
| | 38,510 | 34,252 |
| **Financial liabilities** | | |
| *Financial liabilities measured at amortised cost* | | |
| Trade and other payables | (19,658) | (13,430) |
| Short-term borrowings | (4,025) | – |
| IFRS 16 lease liabilities | (13,643) | (7,340) |
| | (37,326) | (20,770) |
| *Financial liabilities measured at fair value* | | |
| Contingent consideration payable | (31,313) | – |
| Net financial assets and liabilities | (30,129) | 14,185 |
| **Non-financial assets and liabilities** | | |
| Plant, property and equipment | 20,578 | 11,715 |
| Goodwill | 81,447 | 22,851 |
| Other intangible assets | 20,725 | 1,124 |
| Prepayments and accrued income | 1,780 | 1,643 |
| Work in progress on self-published titles | – | 727 |
| Other debtors | 1,519 | – |
| Corporation tax (payable)/receivable | (381) | 703 |
| Deferred tax | 312 | 2,512 |
| | 125,980 | 41,275 |
| Total equity | 95,851 | 54,757 |

## Capital management policies and procedures

The Group's capital management objectives are:

- To ensure the Group's ability to continue as a going concern; and
- To provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

This is achieved through close management of working capital and regular reviews of pricing. Decisions on whether to raise funding using debt or equity are made by the Board based on the requirements of the business.

Capital for the reporting period under review is shown as total equity in the table above.

Notes to the Group Financial Statements for the year ended 31 December 2020
continued

## 24. Share capital

| | Ordinary shares 0.01 | Share Capital £'000 | Share Premium £'000 |
|---|---|---|---|
| At 31 December 2019 | 150,605,037 | 1,506 | 41,605 |
| Issue of shares in the year – share placing | 7,588,500 | 76 | 13,583 |
| Costs of share placing | – | – | (543) |
| Issue of shares in the year – acquisition of Red Kite Games Ltd | 1,162,791 | 12 | 1,502 |
| Issue of shares in the year – acquisition of Pipeworks, Inc | 9,893,940 | 99 | 25,427 |
| Issue of shares in the year – Share based payments | 56,005 | – | – |
| **At 31 December 2020** | 169,306,273 | 1,693 | 81,574 |

During the year, 16,005 shares in aggregate were issued under the Sumo Group plc Share Incentive Plan. A further 40,000 shares were issued following the exercise of options.

When calculating basic earnings per share, the weighted average number of shares has been adjusted to exclude shares held in the Employee Benefit Trust (4,618,735 at 31 December 2020 and at 31 December 2019).

Share capital represents the nominal value of shares that have been issued.

Share premium includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium, net of any related income tax benefits. On 16 July, the Group completed fundraising via the issue of 7,588,500 at £1.80 per share. Transaction costs of £543,000 were deducted from the share premium account.

The reverse acquisition reserve was created as a result of the share for share exchange under which Sumo Group plc became the parent undertaking prior to the IPO. Under merger accounting principles, the assets and liabilities of the subsidiaries were consolidated at book value in the Group financial statements and the consolidated reserves of the Group were adjusted to reflect the statutory share capital, share premium and other reserves of the Company as if it had always existed, with the difference presented as the reverse acquisition reserve.

The merger relief reserve represents the difference between the fair value and nominal value of shares issued on acquisition of a Group subsidiary.

The foreign currency translation reserve represents the exchange differences on retranslation of foreign operations.

## 25. Related party transactions

### Identity of related parties

The Directors consider there to be no ultimate controlling party during the period. Related parties include representatives of major shareholders and parent and intermediate parent entities ultimately owned by the same shareholders.

Except as disclosed above, there were no other related party transactions during the year.

Key management compensation is disclosed in Note 5.

# 26. Business combinations

## Acquisition of Pipeworks Inc

On 30 September 2020 the Group announced its conditional acquisition of Pipeworks, Inc (Pipeworks). The acquisition was completed on 16 October 2020. Consideration agreed was $35.0m cash on completion subject to normal cash, net debt and working capital adjustments and $24.5m in Sumo shares on completion, with additional consideration of up to $40m payable based on the performance of Pipeworks in the years to 31 December 2020 and 31 December 2021. The fair value of the consideration was assessed as £80.2m ($103.7m), comprising cash of £26.2m ($33.9m) (£25.0m net of cash acquired), Ordinary shares issued £25.5m ($33.0m) and additional earnout consideration contingent on future performance with an estimated fair value at the acquisition date of £28.5m ($36.8m).

## Consideration transferred

### Completion consideration

On 16 October 2020 the acquisition of Pipeworks, Inc was settled in cash of $33.9m (£26.2m) after adjustments for cash, debt and normalised working capital, and in 9,893,940 shares with a fair value of £25.5m ($33.0m) on the completion date based on the Group's share price on 16 October of £2.58 per share. The number of shares issued was determined as a value of $24.5m based on the 'reference share price' (the average share price on the 30 trading days preceding 28 September 2020) determined on completion to be $2.48/ £1.90.

### Contingent consideration

In addition to the consideration payable on completion, additional consideration may be payable based on earnout targets for Pipeworks, Inc. for the financial years ending 31 December 2020 and 31 December 2021. The maximum earnout consideration is $8m in respect of 2020 and $32m in respect of 2021 based on the reference share price of $2.48/£1.90. The total earnout consideration will be settled in one instalment following the signing of the audited accounts of the Group for the year ending 31 December 2021. At least 30% of the earnout consideration will be settled in cash, and at least 30% settled in Sumo shares, with the final split of cash and shares at the Group's discretion. 35% of the total earnout consideration is variable based on movements in the Group's share price in comparison to the reference share price.

Management determined that the fair value of contingent consideration on acquisition was $36.8m (£28.5m). In determining the fair value of the contingent consideration on acquisition, management have made a number of assumptions:

**Financial targets** – management have made an assessment of the likelihood of earnout targets being met. The earnout for the year ended December 2020 has been determined based on the actual trading results for the period. The earnout for the year ended December 2021 has been calculated using a risk weighted average forecast. This assumption will be reassessed at each reporting date and any movements in the fair value of the consideration amount recognised in the income statement.

**Fair value of shares** – a proportion of the earn out consideration results in a fixed number of shares (or cash equivalent value) using the earn out amount divided by the 'reference share price' of £1.90. The fair value of this proportion of the consideration was determined with reference to the Group's market share price on completion. The fair value will be reassessed at each reporting date, and at 31 December 2020 this has resulted in an increase in the fair value of the consideration of £4,205,000 which has been recognised as an expense in the income statement. This expense is offset by a foreign exchange gain on retranslation of the liability of £1,499,000.

**Discount rate** – the liability for contingent consideration has been discounted to present value using a rate of 2.5%. Interest costs of £146,000 have been recognised in the income statement. The undiscounted value of the contingent consideration at acquisition was $38.2m (£29.5m).

## Goodwill and intangible assets

Goodwill of £61,841,000 is primarily related to growth, technical knowledge and market diversification, as well as the acquisition of an assembled and trained workforce. Other intangible assets had a fair value of £21,425,000 and include Customer Contracts, Customer relationships, Trademarks and Intellectual property.

## Contribution to the Group results

Pipeworks, Inc generated a profit before tax of £1.2m for the 2.5 months from acquisition. Revenue for the period was £6.1m. If Pipeworks had been part of the Group for the full year, profit before tax would have been £3.7m.

Notes to the Group Financial Statements for the year ended 31 December 2020
continued

## 26. Business combinations continued

The draft fair values of the assets and liabilities acquired are set out below:

| | Fair value £'000 |
|---|---|
| **Assets** | |
| Intangible assets | 21,425 |
| Property, plant and equipment | 4,400 |
| Trade and other receivables | 3,223 |
| Cash and cash equivalents | 1,247 |
| | 30,295 |
| **Liabilities** | |
| Corporation tax payable | (16) |
| Trade and other payables | (6,131) |
| Deferred tax | (5,755) |
| | (11,902) |
| | 18,393 |
| **Goodwill** | 61,841 |
| | 80,234 |
| **Summary of net cash inflow from acquisition** | |
| Cash paid | 26,246 |
| Cash acquired | (1,247) |
| Cash consideration transferred | 24,999 |
| **Purchase consideration** | |
| Cash paid | 26,246 |
| Ordinary shares | 25,526 |
| Contingent consideration | 28,462 |
| Total purchase consideration | 80,234 |
| **Acquisition costs charged to expenses** | **2,889** |

### Acquisition of Lab42 Limited

On 14 May 2020, the Group acquired Lab42 Limited (Lab42) for consideration of $600,000 (£493,000). Net consideration was £197,000, as Lab42 had £296,000 of cash on the balance sheet at the date of acquisition. The Company will continue to operate under the Lab42 name, as a wholly owned subsidiary of Sumo Digital Limited.

# 26. Business combinations continued

### Contribution to the Group results

Lab 42 Limited generated a profit before tax of £0.5m for the 7.5 months from acquisition. Revenue for the period was £2.6m including £0.4m of intercompany revenue. If Lab42 had been part of the Group for the full year, profit would have been £0.6m.

The draft fair values of the assets and liabilities acquired are set out below:

| | Fair value £'000 |
|---|---|
| **Assets** | |
| Intangible assets | 58 |
| Property, plant and equipment | 145 |
| Trade and other receivables | 415 |
| Cash and cash equivalents | 296 |
| | 914 |
| **Liabilities** | |
| Trade and other payables | (426) |
| | 488 |
| Goodwill | 5 |
| | 493 |
| **Summary of net cash inflow from acquisition** | |
| Cash paid | 493 |
| Cash acquired | (296) |
| Cash consideration transferred | 197 |
| **Purchase consideration** | |
| Cash paid | 493 |
| **Acquisition costs charged to expenses** | **119** |

### Acquisition of Red Kite Games Limited

In the year ended 31 December 2019 the Group acquired Red Kite Games Limited. During the year ended December 2020, the Group paid £134,000 of deferred cash consideration and issued 1,162,791 shares as deferred consideration.

### Cash flows on acquisition of subsidiaries – net of cash acquired:

| | Year ended 31 December 2020 £'000 | Year ended 31 December 2019 £'000 |
|---|---|---|
| Red Kite Games Limited | 134 | 38 |
| Lab 42 Limited | 197 | – |
| Pipeworks, Inc | 24,999 | – |
| | 25,330 | 38 |

# 27. Post balance sheet events

Following the year end, on 27 January 2021, The Group's joint brokers and NOMAD, Zeus Capital, exercised warrants to subscribe for 1,450,000 shares for £1 each, generating proceeds of £1,450,000 for the Group.

On 31 January 2021, the Group acquired PixelAnt Games sp. z o. o. ("PixelAnt"), based in Wroclaw, Poland for a total consideration of £250,000. A further amount may be payable, in Sumo Group shares, depending on the EBITDA achieved in the two years to 31 March 2023. The company will continue to operate under the PixelAnt name, as a wholly owned subsidiary of Sumo Digital Limited.

Notes to the Group Financial Statements for the year ended 31 December 2020
continued

## 28. Alternative performance measures

The Group reports certain alternative performance measures (APMs) that management believes provide valuable additional information for the users of this report to understand the underlying trading performance of the business. In particular, Adjusted EBITDA is used to provide the users of the accounts a clear understanding of the underlying profitability of the business over time. These APMs, described below, are not GAAP measures as defined by IFRS. A reconciliation of statutory profit to underlying profit is provided below.

### Adjusted EBITDA

Adjusted earnings before interest, tax, depreciation and amortisation (Adjusted EBITDA) also excludes:

- Share based payments charges of £4,977,000 (2019: 2,684,000).
- Foreign currency derivative contracts gain of £966,000 (2019: nil). This adjustment represents net gains or losses on economic foreign currency hedges, recognised at fair value within statutory operating profit, but which are not yet realised through actual currency receipts. These gains or losses are excluded from Adjusted EBITDA, which recognises profit on economic foreign currency hedges at a constant currency hedged rate and includes only gains and losses on realised currency receipts.
- Exceptional costs of £4,115,000 (2019: £523,000) for professional advisor fees associated with acquisitions.
- Fair value movements on contingent consideration of £2,706,000 (2019: £nil) associated with acquisitions.
- Investment in co-funded games expensed of £245,000 (2019: £1,292,000), being the Group's contribution to the cost of developing games which are co-funded with clients and which are required to be expensed under IFRS, offset by the unwind of any such costs adjusted in previous periods on games which have subsequently launched.

Adjusted EBITDA also includes:

- Operating lease costs capitalised under IFRS16 of £1,548,000 (2019: £986,000) which represents the rental costs payable on leases applied on a straight line basis over the life of the lease.

### Adjusted profit before tax

Adjusted profit before tax excludes share based payment charges, exceptional costs, fair value movements on contingent consideration and investment in co-funded games expensed, and includes operating lease costs, as described above.

Adjusted profit before tax also excludes:

- Depreciation of £1,355,000 (2019: £905,000) associated with IFRS16.
- Finance costs of £342,000, being interest charges associated with IFRS16 of £196,000 (2019: £149,000) and the unwind of interest on the Group's liability for contingent consideration of £146,000 (2019: £nil).
- Amortisation of £1,742,000 (2019: 621,000) on intangible assets recognised on acquisition.

### Adjusted Earnings Per Share

Basic adjusted earnings per share is calculated by dividing the adjusted profit attributable to equity shareholders by the adjusted weighted average number of ordinary shares in issue at the reporting date.

Adjusted profit attributable to equity shareholders is calculated as adjusted profit before tax after applying a pro-forma rate of tax of 19%.

Adjusted weighted average number of shares differs from the statutory measure (note 12) as it includes 950,000 nil cost options issued on IPO which have no outstanding performance conditions as part of share capital. Only 540,000 were exercised as at 2020 (2019: 500,000). Adjusted weighted average number of shares in 2020 also assumes 7,588,500 of share placing shares issued on 21 July 2020 were tied to the Pipeworks acquisition on 16 October and are included in the weighted average only from that date.

Diluted adjusted earnings per share is calculated by dividing adjusted earnings attributable to equity shareholders by the total number of potential future shares, including all those in granted in respect of Share Option schemes where performance conditions have not yet been met.

## 28. Alternative performance measures continued

When calculating adjusted diluted earnings per share, the number of shares is adjusted to assume conversion of 9,603,033 (2018: 9,640,194) of potentially dilutive options granted to employees, 8,715,519 (2019: 1,162,791) shares to be issued in respect of deferred consideration on acquisition and 1,450,000 (2019: 1,450,000) of warrants.

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| **Adjusted earnings per share** | | |
| Weighted average number of shares for the purposes of basic adjusted earnings per share | 151,138,164 | 146,410,409 |
| Fully dilutive potential number of shares | 184,934,211 | 158,239,287 |
| Basic AEPS (pence) | 7.93 | 6.99 |
| Diluted AEPS (pence) | 6.48 | 6.46 |

A reconciliation of IFRS reported results to the unaudited underlying income statement is shown below.

| | Year ended 31 December 2020 | | | Year ended 31 December 2019 | | |
|---|---|---|---|---|---|---|
| | Reported £'000 | Adjustments £'000 | Underlying £'000 | Reported £'000 | Adjustments £'000 | Underlying £'000 |
| Revenue | 68,948 | – | 68,948 | 48,987 | – | 48,987 |
| **Gross profit** | 31,476 | 245 | 31,721 | 23,928 | 1,292 | 25,220 |
| Operating expenses excluding depreciation, amortisation, share based payments, foreign currency derivative contracts, exceptional items and fair value loss on contingent consideration | (13,701) | – | (13,701) | (10,162) | – | (10,162) |
| Investment in co-funded games expensed | 245 | (245) | – | 1,292 | (1,292) | – |
| Operating lease costs capitalised under IFRS16 | (1,548) | – | (1,548) | (986) | – | (986) |
| **Adjusted EBITDA** | 16,472 | – | 16,472 | 14,072 | – | 14,072 |
| Depreciation | (3,524) | 1,355 | (2,169) | (2,226) | 905 | (1,321) |
| Amortisation of software | (347) | – | (347) | (213) | – | (213) |
| Foreign currency derivative contracts | 966 | – | 966 | – | – | – |
| Investment in co-funded games expensed | (245) | 245 | – | (1,292) | 1,292 | – |
| Operating lease costs capitalised under IFRS16 | 1,548 | (1,548) | – | 986 | (986) | – |
| Net finance costs | (470) | 342 | (128) | (60) | 149 | 89 |
| **Adjusted profit before tax** | 14,400 | 394 | 14,794 | 11,267 | 1,360 | 12,627 |
| Amortisation of intangibles arising on acquisition | (1,742) | – | – | (621) | – | – |
| Share based payment charge | (4,977) | – | – | (2,684) | – | – |
| Operating expenses – exceptional | (4,115) | – | – | (523) | – | – |
| Fair value losses on contingent consideration | (2,706) | – | – | – | – | – |
| Profit/(loss) before taxation | 860 | – | – | 7,439 | – | – |

# Parent Company Balance Sheet

as at 31 December 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments – shares in subsidiary undertakings | 3 | 181,088 | 94,563 |
| Deferred tax | 4 | 323 | 117 |
| | | 181,411 | 94,680 |
| **Current assets** | | | |
| Trade and other receivables | 5 | 35,134 | 36,657 |
| Cash and cash equivalents | | 97 | 5,003 |
| | | 35,231 | 41,660 |
| **Current liabilities** | | | |
| Trade and other payables | 6 | 10,684 | 325 |
| Corporation Tax payable | | – | – |
| | | 10,684 | 325 |
| **Net current assets** | | 24,547 | 41,335 |
| **Contingent consideration payable** | 6 | (31,313) | – |
| **Net assets** | | 174,645 | 136,015 |
| **Capital and reserves** | | | |
| Called up share capital | 7 | 1,693 | 1,506 |
| Share premium | 7 | 81,574 | 41,605 |
| Merger relief reserve | | 590 | 590 |
| Shares to be issued | 7 | – | 1,514 |
| Retained earnings | | 90,788 | 90,800 |
| **Total shareholders' funds** | | 174,645 | 136,015 |

The Company loss for the year was £3,762,000 (2019: loss of £260,000).

The Company financial statements on pages 114 to 115 were approved by the Board of Directors on 30 March 2021 and were signed on its behalf by:

**Carl Cavers**
Director

**David Wilton**
Director

The notes on pages 116 to 118 form part of these Company financial statements.

# Parent Company Statement of Changes in Equity

for the year ended 31 December 2020

| | Share capital £'000 | Share premium £'000 | Merger relief reserve £'000 | Shares to be issued £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|---|---|
| **Balance at 31 December 2018** | 1,501 | 40,994 | 590 | – | 89,625 | 132,710 |
| Loss for the year | – | – | – | – | (260) | (260) |
| Total comprehensive income for the year | – | – | – | – | (260) | (260) |
| Transactions with owners: | | | | | | |
| Issue of shares | 5 | 611 | – | – | – | 616 |
| Share-based payments transactions | – | – | – | – | 1,435 | 1,436 |
| Shares to be issued in respect of acquisition of a subsidiary | – | – | – | 1,514 | – | 1,514 |
| **Balance at 31 December 2019** | 1,506 | 41,605 | 590 | 1,514 | 90,800 | 136,015 |
| Loss for the year | – | – | – | – | (3,762) | (3,762) |
| Exchange differences on retranslation of foreign operations | – | – | – | – | 183 | 183 |
| **Total comprehensive income for the year** | – | – | – | – | (3,579) | (3,579) |
| Transactions with owners: | | | | | | |
| Issue of shares | 187 | 39,969 | – | (1,514) | – | 38,642 |
| Share-based payments transactions | – | – | – | – | 3,567 | 3,567 |
| **Balance at 31 December 2020** | 1,693 | 81,574 | 590 | – | 90,788 | 174,645 |

The notes on pages 116 to 118 form part of these Company financial statements.

# Notes to the Parent Company Financial Statements

for the year ended 31 December 2020

## 1. Basis of preparation and accounting policies

### Basis of preparation

Sumo Group plc (the 'Company') is registered in England and Wales as a public limited company. The address of its registered office is 32 Jessops Riverside, Brightside Lane, Sheffield S9 2RX.

The principal activity of Sumo Group plc and its subsidiaries (together the 'Group') is that of video games development. The principal activity of the Company is that of a holding company.

The separate financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101), on the going concern basis under the historical cost convention, and in accordance with the Companies Act 2006 and applicable Accounting Standards in the UK. The principal accounting policies, which have been applied consistently to all the years presented, are set out below.

The following exemptions from the requirements in IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- The following paragraphs of IAS 1 "Presentation of Financial Statements"
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 11 (cash flow statement information); and
  - 134-136 (capital management disclosures)
- IFRS 9 "Financial Instruments: Disclosures";
- IAS 7 "Statement of Cash Flows";
- IAS 24 (paragraphs 17 and 18a) "Related Party Disclosures" (key management compensation); and
- IAS 24 "Related Party Disclosures" – the requirement to disclose related party transactions between two or more members of a group.

As the Group financial statements include the equivalent disclosures, the Company has taken the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 2 "Share-Based Payments" in respect of Group settled equity share-based payments; and
- Certain disclosures required by IFRS 13 "Fair Value Measurement" and disclosures required by IFRS 7 "Financial Instruments: Disclosures"

### Company profit and loss account

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The Company's loss for the year was £3,762,000 (2019: loss of £260,000) There are no material differences between the profit after taxation in the current and prior year and its historical cost equivalent. Accordingly, no note of historical cost profits and losses has been presented.

### Dividend distribution

The distribution of a dividend to the Company's shareholders is recognised as a liability in the Company's financial statements in the period in which it is approved by the Company's shareholders.

### Investment in subsidiary undertakings

Investments in Group undertakings are stated at cost, unless their value has been impaired in which case they are valued at the lower of their realisable value or value in use.

#### Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except to the extent that it arises on:

- the initial recognition of goodwill where the initial recognition exemption applies;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination;
- differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset in respect of tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

# 1. Basis of preparation and accounting policies continued

## Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

## Share-based payments

The parent company has granted rights to its equity instruments to the employees of its subsidiaries. The share-based payment charge is recorded in profit or loss of the subsidiary company in respect of these arrangements. The parent company has recorded these transactions within cost of investment with the credit recorded within equity.

## Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of issue.

## Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

### Trade and other receivables

Trade and other receivables are initially recorded at fair value and thereafter are measured at amortised cost using the effective interest rate. A loss allowance for expected credit losses is recognised based upon the lifetime expected credit losses. This assessment is performed on a collective basis considering forward-looking information.

### Trade and other payables

Trade payables are initially recorded at fair value and thereafter at amortised cost using the effective interest rate method.

### Critical accounting estimates and judgements

The critical accounting estimates set out in the Group accounts also apply to the Company.

# 2. Remuneration of directors and auditors

Details of Directors' remuneration are shown in the Directors' Remuneration Report of the Group financial statements. Details of auditor remuneration are shown in note 10 of the Group financial statements.

# 3. Investments in subsidiary undertakings

| | £'000 |
|---|---|
| **Cost and carrying amount** | |
| **At 31 December 2018** | 92,511 |
| Share options granted to subsidiary employees | 2,052 |
| **At 31 December 2019** | 94,563 |
| Share options granted to subsidiary employees | 3,380 |
| Investments in subsidiaries | 83,145 |
| **At 31 December 2020** | 181,088 |

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as set out in note 15 to the Group accounts.

Notes to the Parent Company Financial Statements for the year ended 31 December 2020 continued

## 4. Deferred tax

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Losses | 323 | 117 |

The tax charge recognised in the company income statement for the year was £18,000 (2019: charge of £125,000)

## 5. Trade and other receivables

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| Amounts owed by Group undertakings | 34,765 | 36,624 |
| Prepayments and accrued income | 369 | 33 |
| | 35,134 | 36,657 |

All of the amounts owed by Group undertakings shown above are repayable on demand.

## 6. Creditors

| | 2020 £'000 | 2019 £'000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Trade payables | 308 | 23 |
| Amounts owed to Group & related entities | 10,313 | 261 |
| Accruals | 63 | 41 |
| | 10,684 | 325 |
| **Amounts falling due after more than one year** | | |
| Contingent consideration payable | 31,313 | – |

Contingent consideration payable relates to additional consideration which may be due on the acquisition by the Sumo Group of Pipeworks, Inc. Further information is set out in note 26 to the Group financial statements.

## 7. Share capital and reserves

Details of movements in shares are set out in note 24 to the Group financial statements.

## 8. Related party transactions

The Company has taken advantage of the exemption included in FRS101 Reduced Disclosure Framework to not disclose details of transactions with Group undertakings, on the grounds that it is the parent company of a Group whose accounts are publicly available.

### Directors' transactions

Details of the Directors' interests in the ordinary share capital of the Company are provided in the Directors' Report.

## 9. Contingent liabilities

The Company is party to a Group Overdraft Facility of £3,000,000 and a Revolving Credit Facility with Clydesdale Bank plc of up to £27,000,000, together with certain subsidiary companies. An amount of US$5.5m was drawn down at 31 December 2020.

# Financial calendar

| | |
|---|---|
| Financial year end | 31 December 2020 |
| Announcement of full-year results | 31 March 2021 |
| Publication of Annual Report and Accounts | 21 May 2021 |
| Annual General Meeting | 17 June 2021 |
| Announcement of half-year results | Late September 2021 |
| Financial year end | 31 December 2021 |
| Announcement of full-year results | April 2022 |
| Publication of Annual Report and Accounts | May 2022 |

# Company information

### Registrars
Link Group
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London, EC2V 7QP

### Independent auditor
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### Principal bankers
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Leeds LS1 6NP

### Nominated adviser and joint broker
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and
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### Financial public relations
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