

intercede

Intercede Group plc

Interim Report

2020





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COMING SOON

In early 2021 MyID will introduce credential management to FIDO. An innovation that is set to bring the management enterprises need to deploy FIDO across their workforce and supply-chain.

The evolution of MyID to offer FIDO alongside PKI-based authentication brings greater flexibility for enterprises to issue and manage credentials across their diverse user groups.

intercede.com/FIDO

INTERCEDE GROUP plc

Interim Results for the Six Months Ended 30 September 2020

Interim Management Review

Introduction

Despite the challenges caused by COVID-19 in the six months ending 30 September 2020 (H1), Intercede is trending towards consistent growth and is on a sound financial footing with a strong cash position and an exciting product roadmap. The Group's refocus towards sustainable revenue growth and profitability is well under way as evidenced by this fifth successive half of significant progress across the business.

At the time of writing the Annual Report for the year ended 31 March 2020 (FY20), COVID-19 had already spread rapidly across the world and there was concern that reduced physical customer interaction and country lockdowns could have a negative impact on the Group's FY21 performance. While this has been the case for business in Europe and the wider RoW region, there has been significant growth in the US where Intercede's MyID platform is seen as a market leader amongst US Federal government departments. Intercede is proud that the MyID platform is extremely relevant in the current climate as its derived credential and mobile technology help our customers to work remotely in a secure fashion.

Strategy

Notwithstanding the challenges posed by the COVID-19 pandemic, material progress has been achieved on all elements that form part of Intercede's 5C strategy, centred around Colleagues, Customers, Channels, Code and Cash.

1 Colleagues

The Intercede culture remains as strong as ever. Following the introduction of COVID-19 restrictions, the team moved seamlessly to a remote working model and, as these results demonstrate, delivered solid growth across the business despite the challenges of lockdown to businesses everywhere. Over the period staff numbers are unchanged; business as usual has been maintained without anyone being furloughed or made redundant and without any reductions in working hours or pay cuts. Intercede continues to recognise the achievements of its staff with pay rises and performance-related rewards.

During the period, Intercede conducted the annual employee engagement survey and this year saw the highest ever positive eNPS score (employee Net Promoter Score), demonstrating the commitment and strength of employee engagement.

Strong progress was reported on all elements of the survey which is a great testament to the success of the Employee Working Group.

2 Customers

As outlined below in the Financial Results section, a number of follow on orders have been received from existing customers and Intercede was excited to announce a significant new sale to the US Department of State (DoS). The ten-year, multi-million dollar contract will see Intercede's MyID software issuing and managing the lifecycle of hundreds of thousands of DoS employee digital identities. This forms part of the agency's next-generation Identity Management System (IDMS) solution compliant with Homeland Security Presidential Directive 12 (HSPD-12)/US Federal Government Standard FIPS 201.

To combat decreasing physical customer interaction during the pandemic, Intercede has continued to push ahead with three important customer focused initiatives: Customer Advisory Board (CAB), Customer Satisfaction Survey and the Customer Portal. Virtual CABs were held during October and November for Customers in the RoW and US respectively, who took the opportunity to get a view of upcoming updates to the MyID software platform but more importantly contribute to workshops on future MyID roadmap developments and innovations. Meanwhile the annual Customer Satisfaction Survey is currently underway and the Customer Portal is live and gathering feedback.

3 Channels

Our partner network has continued to expand with new agreements established with partners covering the UK, North America, Africa, Middle East and Europe.

We currently have MyID deployments active on four Continents and each of them has inevitably been impacted by the pandemic. Europe and the Middle East has been particularly hard hit simply by the severity of individual country lockdowns. It has been very difficult for our partners to progress demonstrations and close out sales leads. Opportunities with Government departments and public utilities have been particularly affected as their priorities have been very much focused on public health challenges rather than the commissioning and deployment of new digital ID solutions.

The establishment and further development of partner relationships is critical for the Group's future growth prospects. MyID is a Credential Management System (CMS) that forms part of a wider identity ecosystem and Intercede utilises its global network of reseller and technology partners to provide the global footprint to locally deliver the cyber security solutions our customers need. A number of new wins in the period highlight the strength of Intercede's offering when working proactively with partners, following on from the recent launch of our Connect Partner Programme.

4 Code

The challenge for Intercede continues to be scalability, which is being tackled on a number of fronts primarily by looking at new market segments, such as FIDO (Faster IDentity Online), and by reducing the cost and complexity of PKI (Public Key Infrastructure) with new products such as MyID Professional. There is clearly interest in the market for low cost PKI with out-of-the-box integration and it is pleasing to note the first sale of MyID Professional, a subscription based offering, during the period. The introduction of MyID Professional opens up engagement with potential business leads previously not addressed and who may, on further investigation, find their needs are better met with MyID Enterprise thereby creating nett new sales entries.

Innovation is in Intercede's DNA and MyID v11 continues to evolve under the guiding principles of a) modernising the platform; b) introducing functionality to expand the addressable market; and c) continuing to be a customer-driven product. During the period MyID v11.6 was released to plan and has been well received by customers thanks to the introduction of a new operator client (using REST APIs for improved user experience and enhanced performance) and additional functionality including Windows Hello for Business integration (WHFB) as well as the new MyID authentication service. Intercede is working closely with Microsoft to develop an even tighter integration with WHFB as demanded by the most security conscious clients and prospects.

The new MyID authentication service enables organisations to quickly step up to the highest levels of security without having to invest in smart cards or tokens. When combined with the new MyID Authenticator mobile app, employees can easily authenticate to applications and cloud resources using a mobile device in place of a smart card or token. This provides a simple experience for the end user; supporting PIN, fingerprint and facial recognition while providing the organisation with a high security PKI-based authentication.

5 Cash

The Group remains in a healthy financial position, with gross cash balances of £8.1m as at 30 September 2020 compared to £4.8m held at 31 March 2020. This increase is primarily driven by £3.3m of cash generated from operations (2019: £1.8m) which reflects strong cash management during a period when the Group has continued to proactively control its operating cost base while maintaining investment in the product roadmap.

Financial Results

Revenue in the period totalled £4,762,000, a 9% increase compared to the corresponding period last year with growth across all areas of revenue ie software licenses, professional services and support & maintenance. At the geographical level

this growth is predominantly in the US market which possibly reflects different public health approaches to the pandemic but also demonstrates the resilience of Intercede's MyID brand in its core US Federal market. The US Government has a higher degree of regulation with respect to securing digital identities and Intercede prides itself on being first to produce accredited software, as it was when FIPS 201 was originally introduced.

It is also pleasing to note the longer-term trend of Intercede's revenue. Revenue for the six months ended 30 September 2016 was £2,828,000 and the growth from this starting point represents compound average growth of 14% over the four corresponding periods to 30 September 2020 (2017: £3,651,000, 2018: £4,174,000, 2019: £4,364,000, 2020: £4,762,000).

Revenue highlights for the period include:

- A new MyID PIV deployment sale to provide an innovative Identity Management System (IDMS) solution compliant with US Federal Government Standard FIPS 201 for the US Department of State (DoS) and its customers. An initial progress order in excess of \$1m was received in August and a follow-on order totalling \$2.8m was announced on 17 November 2020.
- A follow-on MyID Enterprise license order from one of the largest US wireless network operators.
- A new MyID Enterprise license sale to a geology research institution based in Germany.
- The first sale of MyID Professional to a branch of the US State Government to provide a pilot solution.
- A new MyID Enterprise deployment sale to an existing US Air Force base customer. There is potential to package and market a MyID solution to other similar sized US Air Force base customers.

All of these wins are expected to generate incremental revenue over the next 12 months from a combination of support & maintenance plus professional services, development and/or follow-on license sales.

Compared to the corresponding period last year, operating expenses have increased by 3% to £4,446,000 (2019: £4,329,000). When one-offs are excluded, underlying costs are very consistent and reflect continued tight control over all areas of expenditure. Staff costs continue to represent the main area of expense representing 87% of total operating costs (2019: 87%). Intercede had 83 employees and contractors as at 30 September 2020 (30 September 2019: 82). The average number of employees and contractors during the period was 83 (2019: 82).

A £438,000 taxation credit for the period (2019: £447,000 taxation credit) primarily reflects the 2020 Research & Development ("R&D") claim which results from the Group's strategic investment activities. The Group is a beneficiary of the UK Government's

efforts to encourage innovation by allowing 130% of qualifying R&D expenditure to be offset against taxable profits and 14.5% of the lower of R&D losses or taxable losses to be paid as tax credits.

The increase in revenue combined with a consistent level of operating expenses has resulted in an increase in operating profit to £295,000 (2019: £25,000). A profit for the period of £441,000 (2019: £184,000) resulted in a basic profit per share of 0.9p and a fully diluted profit per share of 0.8p (2019: basic profit per share of 0.4p and a fully diluted profit per share of 0.3p).

Cash balances as at 30 September 2020 totalled £8,067,000 which compares with £4,758,000 as at 31 March 2020 and £5,156,000 as at 30 September 2019. The increase in cash balances is primarily driven by £3,312,000 of cash generated from operations (2019: £1,841,000). It is worth noting that the 2020 R&D tax claim totalling £447,000 was received prior to the period end and forms part of the cash balances as at 30 September 2020 (2019: R&D claim totalling £460,000 was received shortly after the period end and does not form part of the cash balances as at 30 September 2019). Cash used in investing activities totalled £21,000 compared to £383,000 of cash generated in the prior period which included proceeds from the disposal of a UK office totalling £422,000. The much improved cash balances put the Group in a strong position to deal with convertible loan notes totalling £5,005,000 that are set to mature on 29 December 2021; whether the loan note holders elect to convert (at a conversion price of 68.8125 pence per ordinary share) or would prefer repayment of the outstanding balances.

Outlook

Whilst the broader impact of a second wave of COVID-19 on the remainder of the current financial year remains as yet uncertain, Intercede's fundamentals remain very much intact and year-on-year growth is still anticipated in FY21. As full or part-time remote working may increasingly become the norm, secure remote access to systems, applications and data will be essential and Intercede's derived credential and mobile technology is already well ahead of many others in the market. As in previous years, revenue is expected to be weighted towards the second half of the year.

Whilst the nature of Intercede's business and customer profile is such that the precise timing of orders is difficult to predict, the current sales pipeline and levels of bid activity continue to support management's revenue and profitability targets.

Klaas van der Leest

Chief Executive Officer
24 November 2020

Andrew Walker

Finance Director
24 November 2020

Consolidated Statement of Comprehensive Income

For the period ended 30 September 2020

	6 months ended 30 September 2020 £'000	6 months ended 30 September 2019 £'000	Year ended 31 March 2020 £'000
Continuing operations			
Revenue	4,762	4,364	10,355
Cost of sales	(21)	(10)	(12)
Gross profit	4,741	4,354	10,343
Operating expenses	(4,446)	(4,329)	(9,191)
Operating profit	295	25	1,152
Finance income	3	9	19
Finance costs	(295)	(297)	(597)
Profit/(loss) before tax	3	(263)	574
Taxation	438	447	432
Profit for the period	441	184	1,006
Total comprehensive income attributable to owners of the parent company	441	184	1,006
Profit per share (pence)			
- basic	0.9p	0.4p	2.0p
- diluted	0.8p	0.3p	1.9p

Consolidated Balance Sheet

As at 30 September 2020

	As at 30 September 2020 £'000	As at 30 September 2019 £'000	As at 31 March 2020 £'000
Non-current assets			
Property, plant and equipment	109	151	119
Right of use assets	851	1,021	980
	960	1,172	1,099
Current assets			
Trade and other receivables	1,315	3,188	5,100
Cash and cash equivalents	8,067	5,156	4,758
	9,382	8,344	9,858
Total assets	10,342	9,516	10,957
Equity			
Share capital	505	505	505
Share premium	673	673	673
Equity reserve	66	66	66
Merger reserve	1,508	1,508	1,508
Accumulated deficit	(3,597)	(5,076)	(4,133)
Total equity	(845)	(2,324)	(1,381)
Non-current liabilities			
Convertible loan notes	4,879	4,790	4,832
Lease liabilities	1,001	1,301	1,207
Deferred revenue	370	311	195
	6,250	6,402	6,234
Current liabilities			
Lease liabilities	328	284	316
Trade and other payables	1,663	1,955	1,632
Deferred revenue	2,946	3,199	4,156
	4,937	5,438	6,104
Total liabilities	11,187	11,840	12,338
Total equity and liabilities	10,342	9,516	10,957

Consolidated Statement of Changes in Equity

For the period ended 30 September 2020

	Share capital £'000	Share premium £'000	Equity reserve £'000	Merger reserve £'000	Accumulated deficit £'000	Total equity £'000
At 1 April 2020	505	673	66	1,508	(4,133)	(1,381)
Purchase of own shares	—	—	—	—	(14)	(14)
Proceeds from recycling of own shares	—	—	—	—	26	26
Employee share option plan charge	—	—	—	—	45	45
Employee share incentive plan charge	—	—	—	—	38	38
Profit for the period and total comprehensive income	—	—	—	—	441	441
At 30 September 2020	505	673	66	1,508	(3,597)	(845)
At 1 April 2019	505	673	66	1,508	(5,420)	(2,668)
Proceeds from recycling of own shares	—	—	—	—	17	17
Employee share option plan charge	—	—	—	—	54	54
Employee share incentive plan charge	—	—	—	—	89	89
Profit for the period and total comprehensive income	—	—	—	—	184	184
At 30 September 2019	505	673	66	1,508	(5,076)	(2,324)
At 1 April 2019	505	673	66	1,508	(5,420)	(2,668)
Proceeds from recycling of own shares	—	—	—	—	38	38
Employee share option plan charge	—	—	—	—	99	99
Employee share incentive plan charge	—	—	—	—	144	144
Profit for the period and total comprehensive income	—	—	—	—	1,006	1,006
At 31 March 2020	505	673	66	1,508	(4,133)	(1,381)

Consolidated Cash Flow Statement

For the period ended 30 September 2020

	6 months ended 30 September 2020 £'000	6 months ended 30 September 2019 £'000	Year ended 31 March 2020 £'000
Cash flows from operating activities			
Profit for the period	441	184	1,006
Taxation	(438)	(447)	(432)
Finance income	(3)	(9)	(19)
Finance costs	295	297	597
Depreciation of property, plant & equipment	31	43	81
Depreciation of right of use assets	129	114	235
Profit on disposal of assets held for sale	—	(50)	(50)
Employee share option plan charge	45	54	99
Employee share incentive plan charge	38	89	144
Employee unit incentive plan charge	25	14	36
Employee unit incentive plan payment	—	—	(4)
Decrease/(increase) in trade and other receivables	3,810	2,009	(356)
Increase/(decrease) in trade and other payables	5	41	(299)
(Decrease)/increase in deferred revenue	(1,035)	(542)	299
(Decrease)/increase in lease liabilities	(31)	44	23
Cash generated from operations	3,312	1,841	1,360
Finance income	6	7	17
Finance costs on convertible loan notes	(199)	(199)	(400)
Finance costs on leases	(48)	(54)	(112)
Tax received/(paid)	438	(13)	432
Net cash generated from operating activities	3,509	1,582	1,297
Investing activities			
Proceeds on disposal of property, plant and equipment	—	422	422
Purchases of property, plant and equipment	(21)	(39)	(46)
Cash (used in)/generated from investing activities	(21)	383	376
Financing activities			
Purchase of own shares	(14)	—	—
Proceeds from recycling of own shares	26	17	38
Principal elements of lease payments	(163)	(116)	(236)
Cash used in financing activities	(151)	(99)	(198)
Net increase in cash and cash equivalents	3,337	1,866	1,475
Cash and cash equivalents at the beginning of the period	4,758	3,228	3,228
Exchange (loss)/gains on cash and cash equivalents	(28)	62	55
Cash and cash equivalents at the end of the period	8,067	5,156	4,758

Notes to the Consolidated Accounts

For the period ended 30 September 2020

1 Preparation of the interim financial statements

These interim financial statements have been prepared under IFRS as adopted by the European Union and on the basis of the accounting policies set out in the Group's Annual Report for the year ended 31 March 2020.

The Group's Annual Report for the year ended 31 March 2020 provides full details of significant judgements and estimates used in the application of the Group's accounting policies. There have been no significant changes to these judgements and estimates during the period.

These interim financial statements have not been audited and do not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 March 2020 have been delivered to the Registrar of Companies. The Auditors' Report on those accounts was unqualified and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

The Interim Report will be mailed to shareholders within the next few weeks and copies will be available on the website (www.intercede.com) and at the registered office: Intercede Group plc, Lutterworth Hall, St Mary's Road, Lutterworth, Leicestershire, LE17 4PS.

2 Revenue

All of the Group's revenue, operating profits and net liabilities originate from operations in the UK. The Directors consider that the activities of the Group constitute a single business segment.

The split of revenue by geographical destination of the end customer can be analysed as follows:

	6 months ended 30 September 2020 £'000	6 months ended 30 September 2019 £'000	Year ended 31 March 2020 £'000
UK	66	39	131
Rest of Europe	509	578	1,126
North America	3,867	3,041	7,958
Rest of World	320	706	1,140
	4,762	4,364	10,355

3 Taxation

Taxation represents the net effect of amounts receivable from HMRC in respect of R&D claims and US corporation tax payable.

4 Earnings per share

The calculations of earnings per ordinary share are based on the profit for the period and the weighted average number of ordinary shares in issue during each period.

	6 months ended 30 September 2020 £'000	6 months ended 30 September 2019 £'000	Year ended 31 March 2020 £'000
Profit for the period	441	184	1,006
	Number	Number	Number
Weighted average number of shares			
– basic	50,482,281	50,482,281	50,482,281
– diluted	53,183,844	53,279,049	53,232,738
	Pence	Pence	Pence
Earnings per share			
– basic	0.9p	0.4p	2.0p
– diluted	0.8p	0.3p	1.9p

The weighted average number of shares used in the calculation of basic and diluted earnings per share for each period were calculated as follows:

	6 months ended 30 September 2020 Number	6 months ended 30 September 2019 Number	Year ended 31 March 2020 Number
Issued ordinary shares at start of period	50,523,926	50,523,926	50,523,926
Effect of treasury shares	(41,645)	(41,645)	(41,645)
Effect of issue of ordinary share capital	—	—	—
Weighted average number of shares – basic	50,482,281	50,482,281	50,482,281
Add back effect of treasury shares	41,645	41,645	41,645
Effect of share options in issue	2,659,918	2,755,123	2,708,812
Effect of convertible loan notes in issue	—	—	—
Weighted average number of shares – diluted	53,183,844	53,279,049	53,232,738

The convertible loan notes are anti-dilutive and have therefore been excluded from the calculation of diluted profit per share. Had the convertible loan notes been dilutive in nature, this would have increased the weighted average number of shares by 7,273,387 for each period.

5 Dividend

The Directors do not recommend the payment of a dividend.

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