intercede

Intercede Group plc

Interim Report 2021

INTERCEDE GROUP plc

Interim Results for the Six Months Ended 30 September 2021

Interim Management Review

Introduction

Despite the COVID-19 pandemic, the previous financial year demonstrated that Intercede has significant reasons to be optimistic for the future. The Group completed Phase 1 of its turnaround after recording its third consecutive year of profit and cash generation, with 14% growth in revenues in its dominant US market. The continuing positive trend and momentum gave the Board the confidence to issue a call notice in respect of the outstanding convertible loan notes (CLNs) totalling £5,005,000. The removal of this debt from the balance sheet, and the elimination of the associated interest cost, means Intercede is well placed to pursue its growth strategy into 2021 and beyond.

Throughout this year, we have seen yet more evidence of the economic and reputational threat posed to governments and enterprises by cyber attacks.
The first half of this financial year has given rise to a number of catastrophic cybersecurity breaches including the recent attack on Colonial Pipeline, whilst many organisations are also still dealing with the aftereffects of the SolarWinds breach. The increased instances of such malicious and targeted strikes led to President Biden's administration issuing an Executive Order on cybersecurity in May 2021. The Executive Order is wide ranging, covering enhanced information sharing, replicable 'playbook' style responses to cybersecurity incidents and increased vendor transparency. One item that stands out is that username/password combination alone is not a permitted form of authentication to access government systems and data and instead secure Multi-factor Authentication (MFA) is mandated.

"Hackers don't break in, they log in"
Vasu Jakkal, Security vice-president Microsoft

Fundamentally, it is time to move on from passwords. Last year, username/password breaches increased by +450% in the US, according to ForgeRock's Identity Breach Report 2021. A key learning from the Colonial attack is that MFA is not enough and the recent Executive Order requires that authentication is secured with encryption of data at rest and in transit. MFA is used to ensure that digital users are who they say they are by requiring that they provide at least two pieces of evidence to prove their identity. Each piece of evidence must come from a different category: something they know, something they have or something they are. Commonly, day-to-day MFA utilises SMS-based one-time passwords (OTP's) but these are at risk of phishing via open source and readily available phishing tools or methods such as SIM swapping that rely on social engineering. This is not the case with secure MFA, such as Public Key Infrastructure (PKI) and FIDO (Faster Identity Online), which provide highly secure crypto-based security that meets the requirements of the Executive Order and mitigate against the threat of phishing, social engineering, brute force and password spraying attacks.

In July 2021, Intercede was excited to announce that MyID had been formally FIDO2 certified. The certification has been awarded after MyID passed FIDO Alliance interoperability trials demonstrating its ability to use open authentication standards backed by technology leaders including Microsoft, Apple, Google, Intel, Facebook and Amazon. This certification opens up Intercede's addressable market by both territorial reach and product breath.

The MyID platform manages deployment and lifecycle events for both PKI, FIDO and combined PKI/FIDO devices, giving consistency over policy, reporting and user experience. Intercede is proud to offer the MyID platform as the first global solution to offer a truly unified approach to credential management.

Strategy

Intercede continues to focus on its 5C strategy, centred around Colleagues, Customers, Channels, Code and Cash. In this second phase of our turnaround, we are adding a new C: Corporate Development. The Group is actively exploring buy-side M&A following the appointment of a new full time Head of Corporate Development. The Board sees the value in taking time to ensure the right strategic fit(s) to ensure scalability and accelerated revenue growth, whilst also pursuing a disciplined approach to deal pricing.

1 Colleagues

Intercede's product innovation roadmap leverages over 1,000 person-years of internal development expertise that would require a competitor to spend significant time and effort to replicate. Put very simply, the Group respects its staff and recognises they are one of its most valuable assets. Two-way communication is promoted to encourage colleagues to share their views and preferences, be they positive or negative, so they can be addressed to deliver a workplace that is enjoyable and productive. In September 2021, all colleagues were invited to take part in the annual employee survey which saw a high response of 96% (compared to an industry average in the mid-60%s). Engagement has increased from 63% in 2017 to 85% in 2021 (above industry norm) and has held steady compared to 2020, which is reassuring and a positive indication of colleagues' health and wellbeing during the pandemic and the switch to remote working.

2 Customers

A record eight new customers were signed up during the period and the level of attrition remains very low with renewal rates above 98%.

Intercede works closely with customers to understand what is important to them and reflect this in the MyID product roadmap. New features such as enhanced REST APIs for simpler integration, the improved user experience of the operator interface and support for a wider range of authentication mechanisms including FIDO and mobile ID, help to keep MyID relevant to our customers and ensure that MyID is the system of choice where both security and flexibility are essential in ensuring data is protected now and into the future.

Customer upgrades to the latest release indicate the support for the new features released as evidenced by the Group's recent announcement that multiple major customers have chosen to upgrade their existing MyID deployments including:

- A major global aerospace and defence manufacturer upgrading to benefit from enhanced system configuration capabilities and integration APIs, enabling them to remove customisations and to achieve greater in-house control of the solution. In addition, support for the latest device types, such as YubiKey 5s, will allow the customer to deploy modern authentication devices better suited to their working environment.
- A major transportation program wishing to modernise their supported infrastructure platforms and also benefit from the more intuitive and faster browser-independent operator interface.
- A major US government agency choosing to extend their deployment to overseas workers, benefiting from enhanced self-service via kiosk interfaces, reducing operational costs while maintaining compliance with government security standards.

One important communication channel we have with our customers is the annual Customer Advisory Board (CAB). Virtual CABs were held during October and November for Customers and partners in the RoW and US respectively. They have followed a different format this year, starting with a Product Roadmap and Customer Success initiative session, then followed by non-concurrent workshops that allowed customers to attend all sessions including: FIDO for the Enterprise, Mobile Authentication & Transaction Signing and Upgrading MyID.

There are encouraging signs that our efforts to increase and improve customer interaction are paying off as evidenced by the increase in participation of the Customer Satisfaction Survey, the low churn rate and an increased NPS.

3 Channels

The deep focus on strengthening relationships with reseller and technical alliance partners underlies Intercede's go-to-market strategy, namely:

Additional Partners = increased addressable market = more customer deployments

A key element of the Group's growth strategy is therefore focused on increasing the number of partner relationships via Intercede's Connect Partner Programme.

There is a vast and ever-growing number of Public Key Infrastructure (PKI) technologies in global circulation and the business is continually assessing them to identify those hardware and software vendors which meet Intercede's criteria for providing a successful partnership.

We are pleased to report that excellent progress has been made on this front with new partnerships formed in Europe, the US, ASEAN, Latin America and Africa. The strength of these new relationships has resulted in a record number of eight new customers being signed up during H1, with orders received totalling in excess of £700,000, most of which will be recognised in the current fiscal year.

Intercede continues to focus on technical alliances so that customers benefit from their digital infrastructure being seamlessly joined by the secure credential issued by the MyID platform. In Europe we continue to work with the likes of Cryptas and ESYSCO to embed MyID in their solution offerings. This enables enterprises to benefit from a single and secure source of identity to access centralised systems, such as HR and Finance, and provide strong authentication to eIDAS (electronic identification and trust services) signing services.

There has been interest from app developers in Latin America who wish to issue a secure credential with MyID to act as a vaccine passport, which would utilise relevant experience that Intercede has from working on the Kuwait National ID scheme. In our core US market, we were pleased to announce that MyID v12.1 supports the Entrust CA gateway using REST APIs and continue to be part of their Entrust technology Alliance Program.

We are also looking forwarding to sponsoring and speaking at Sailpoint's annual ID.gov event later this month and demonstrating MyID working with SailPoint to help organisations automate the process of onboarding employees and issuing digital credentials.

4 Code

During this financial year, Intercede has continued to invest in the MyID platform in accordance with its core development principles:

- Create and maintain a modern platform based upon market leading technology;
- Broaden the addressable market with new functionality; and
- Meet constantly evolving Customer and Partner needs.

April 2021 saw the announcement of the release of MyID v12 which introduced the following significant new features:

- **FIDO** – MyID can now operate as a FIDO server, supporting a wide range of FIDO2 authenticators and delivering the ability to manage issuance policy and lifecycle management, providing organisations with the control they need to ensure that only the right people can access protected systems and resources.

- **Authentication Server** – an easy to operate method of authentication that enables a customer to use mobile devices within their existing PKI to secure access to the applications, such as Office 365, that they need as part of their role using fingerprint, PIN, or facial matching.
- **Operator Client** – additional features have now been migrated to the new operator client to improve performance and user experience. The operator client is now supported on Google Chrome, Microsoft Edge (Chromium) and Mozilla Firefox browsers.

The imminent release of MyID v12.2 will remove any dependency on Internet Explorer whilst adding more options to authenticate users for self-service features and further operations to the new Operator Client including the ability to embed it within an existing end user portal. As mentioned in the 'Customer' section above, some of our largest customers are choosing to upgrade MyID to benefit from these new features and capabilities.

5 Cash

The Group remains in a healthy financial position, with gross cash balances of £8,491,000 as at 30 September 2021 compared to £8,029,000 held at 31 March 2021. Following the early retirement of all convertible loan notes in February 2021, the Group has no long-term debt or external financing.

Financial Results

Revenues for the six months ended 30 September 2021 totalling £4,855,000 are approximately 9% higher than last year on a constant currency basis and 2% higher on a reported basis (2020: £4,762,000 on a reported basis). It is also pleasing to note the longer-term trend of Intercede's revenue as this represents a fifth successive year of H1 growth with compound average growth of 11% over the five corresponding H1 periods to 30 September 2021.

Revenue highlights for the period include:

- A new MyID Enterprise deployment sale to the US Air Force to support an overseas forward deployment.
- As previously mentioned, multiple major customers have chosen to upgrade their existing MyID deployments including, but not limited to, a major global aerospace and defence manufacturer, a major transportation program and a major US government agency.
- A new MyID Enterprise deployment sale to a photonics technology business based in the UK to help them automate the issue of virtual smart cards (VSCs) at scale.

- A new MyID Enterprise deployment sale and order for professional services to assist a new partner based in South America to set up a pilot ID Provider for the service network of a multinational financial service corporation.
- A new MyID Enterprise deployment sale to a shared service provider for a major US government defence agency.
- Two new MyID PIV deployment sales to an existing US Air Force base customer. This customer now operates six similarly sized MyID PIV deployments.

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 £4,589,000 (2020: £4,446,000). Underlying costs are very consistent and reflect continued tight control over all areas of expenditure. Travel expenses continue to be very low and comparable to the almost complete cessation of travel during the COVID-19 pandemic in the first half of 2020. Staff costs continue to represent the main area of expense representing 85% of total operating costs (2020: 87%). The Group continues to recognise the achievements of its staff with pay rises and performance-related rewards. Intercede had 82 employees and contractors as at 30 September 2021 (30 September 2020: 83). The average number of employees and contractors during the period was 84 (2020: 83).

A £416,000 taxation credit for the period (2020: £438,000 taxation credit) primarily reflects the 2021 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 operating expenses exceeds the increase in revenue, resulting in a small reduction in operating profit to £171,000 (2020: £295,000). However, the fall in finance costs following the elimination of the convertible loan notes produces an increased profit for the period of £539,000 (2020: £441,000) and has resulted in a basic and fully diluted earnings per share of 0.9p (2020: basic earnings per share of 0.9p and a fully diluted profit per share of 0.8p).

Cash balances as at 30 September 2021 totalled £8,491,000 which compares with £8,029,000 as at 31 March 2021. It is worth noting that the 2021 R&D tax claim totalling £433,000 had not been received by the period end and does not form part of the cash balances as at 30 September 2021 (2019: R&D claim totalling £447,000 was received by the period end and formed part of the cash balances as at 30 September 2020).

Retirement of Finance Director

Intercede also announces that after 21 years with the Company, Andrew Walker, Finance Director, has informed the Board of his intention to retire and step down from the Board. He will continue in the role during his notice period of up to 12 months or until an orderly handover can take place. As a result, the Board has begun a recruitment process to identify his successor.

Andrew has been instrumental in the growth of Intercede throughout his 21 years at the Company and his contributions during the last three years have been critical to the success of the Phase 1 turnaround plan. We wish Andrew the very best for his retirement.

Outlook

Whilst the nature of Intercede's business and customer profile is such that the precise timing of orders is difficult to predict, the first half of this year gives us several reasons to be cautiously optimistic. We have continued to demonstrate the strength of our product suite in our core market (PKI), which offers our Blue Chip client base the highest levels of authentication technology available. We are encouraged by the long-term nature of these customer relationships, which remain sticky and grow incrementally over time and provide us with a solid sales pipeline to support management's revenue target.

At the same time, Intercede has ambitions to generate further top line growth and we have identified various avenues to achieve this in the medium-term. We have expanded our TAM (Total Addressable Market) by moving into the FIDO space, which requires a rigorous but lower level of authentication technology and makes our products more relevant to a wider customer base. Initial indications from the proof of concept phase are promising and we look forward to rolling this new solution out to both existing and new customers. With a renewed focus on growth, we have also implemented an M&A strategy which will concentrate on gaining exposure to adjacent and attractive markets.

With various positive structural growth drivers in play and expansion into new markets, the Board remains positive about the medium and long-term prospects for Intercede. As such, whilst we remain cautious of the effects of COVID-19, the Board can confirm that the outlook for the second half of FY22 continues to remain in line with management's expectations.

Klaas van der Leest
Chief Executive Officer
23 November 2021

Andrew Walker
Finance Director
23 November 2021

Consolidated Statement of Comprehensive Income

For the period ended 30 September 2021

	6 months ended 30 September 2021 £'000	6 months ended 30 September 2020 £'000	Year ended 31 March 2021 £'000
Continuing operations			
Revenue	4,855	4,762	10,961
Cost of sales	(95)	(21)	(235)
Gross profit	4,760	4,741	10,726
Operating expenses	(4,589)	(4,446)	(9,137)
Operating profit	171	295	1,589
Finance income	5	3	9
Finance costs	(53)	(295)	(494)
Profit before tax	123	3	1,104
Taxation	416	438	425
Profit for the period	539	441	1,529
Total comprehensive income attributable to owners of the parent company	539	441	1,529

Profit per share (pence)			
- basic	0.9p	0.9p	3.0p
- diluted	0.9p	0.8p	2.8p

Consolidated Balance Sheet

As at 30 September 2021

	As at 30 September 2021 £'000	As at 30 September 2020 £'000	As at 31 March 2021 £'000
Non-current assets			
Property, plant and equipment	134	109	154
Right of use assets	553	851	725
	687	960	879
Current assets			
Trade and other receivables	2,187	1,315	4,098
Cash and cash equivalents	8,491	8,067	8,029
	10,678	9,382	12,127
Total assets	11,365	10,342	13,006
Equity			
Share capital	572	505	571
Share premium	5,138	673	5,138
Equity reserve	—	66	—
Merger reserve	1,508	1,508	1,508
Accumulated deficit	(1,989)	(3,597)	(2,471)
Total equity	5,229	(845)	4,746
Non-current liabilities			
Convertible loan notes	—	4,879	—
Lease liabilities	566	1,001	762
Deferred revenue	240	370	420
	806	6,250	1,182
Current liabilities			
Lease liabilities	352	328	350
Trade and other payables	1,444	1,663	1,920
Deferred revenue	3,534	2,946	4,808
	5,330	4,937	7,078
Total liabilities	6,136	11,187	8,260
Total equity and liabilities	11,365	10,342	13,006

Consolidated Statement of Changes in Equity

For the period ended 30 September 2021

	Share capital £'000	Share premium £'000	Equity reserve £'000	Merger reserve £'000	Accum -ulated deficit £'000	Total equity £'000
At 1 April 2021	571	5,138	—	1,508	(2,471)	4,746
Purchase of own shares	—	—	—	—	(128)	(128)
Issue of new shares	1	—	—	—	—	1
Employee share option plan charge	—	—	—	—	58	58
Employee share incentive plan charge	—	—	—	—	13	13
Profit for the period and total comprehensive income	—	—	—	—	539	539
At 30 September 2021	**572**	**5,138**	**—**	**1,508**	**(1,989)**	**5,229**
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 2020	505	673	66	1,508	(4,133)	(1,381)
Purchase of own shares	—	—	—	—	(29)	(29)
Issue of new shares on conversion of convertible loan notes	66	4,465	(60)	—	—	4,471
Reversal of equity component following redemption of convertible loan notes	—	—	(6)	—	—	(6)
Proceeds from recycling of own shares	—	—	—	—	26	26
Employee share option plan charge	—	—	—	—	88	88
Employee share incentive plan charge	—	—	—	—	48	48
Profit for the period and total comprehensive income	—	—	—	—	1,529	1,529
At 31 March 2021	571	5,138	—	1,508	(2,471)	4,746

Consolidated Cash Flow Statement

For the period ended 30 September 2021

	6 months ended 30 September 2021 £'000	6 months ended 30 September 2020 £'000	Year ended 31 March 2021 £'000
Cash flows from operating activities			
Profit for the period	539	441	1,529
Taxation	(416)	(438)	(425)
Finance income	(5)	(3)	(9)
Finance costs	53	295	494
Depreciation of property, plant & equipment	35	31	60
Depreciation of right of use assets	115	129	255
Exchange losses / (gains) on foreign currency lease liabilities	10	(31)	(74)
Employee share option plan charge	58	45	88
Employee share incentive plan charge	13	38	48
Employee unit incentive plan charge	24	25	30
Decrease in trade and other receivables	2,313	3,810	1,078
(Decrease) / increase in trade and other payables	(500)	5	357
(Decrease) / increase in deferred revenue	(1,454)	(1,035)	877
Cash generated from operations	785	3,312	4,308
Finance income	8	6	12
Finance costs on convertible loan notes	—	(199)	(445)
Finance costs on leases	(32)	(48)	(65)
Tax (paid) / received	(17)	438	425
Net cash generated from operating activities	744	3,509	4,235
Investing activities			
Purchases of property, plant and equipment	(15)	(21)	(95)
Cash used in from investing activities	(15)	(21)	(95)
Financing activities			
Purchase of own shares	(128)	(14)	(29)
Proceeds from recycling of own shares	—	26	26
Principal elements of lease payments	(168)	(163)	(338)
Repayment of convertible loan notes	—	—	(450)
Cash used in financing activities	(296)	(151)	(791)
Net increase in cash and cash equivalents	433	3,337	3,349
Cash and cash equivalents at the beginning of the period	8,029	4,758	4,758
Exchange gain / (loss) on cash and cash equivalents	29	(28)	(78)
Cash and cash equivalents at the end of the period	8,491	8,067	8,029

Notes to the Consolidated Accounts

For the period ended 30 September 2021

1 Preparation of the interim financial statements

These interim financial statements have been prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and with those parts of the Companies Act 2006 applicable to companies reporting under International Financial Reporting Standards (IFRS).

The basis of preparation and accounting policies used in preparation of these interim financial statements have been prepared in accordance with the same accounting policies set out in the Group's Annual Report for the year ended 31 March 2021, which 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 which included an assessment that the going concern basis continues to be appropriate in preparing the interim financial statements.

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 2021 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 assets 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 2021 £'000	6 months ended 30 September 2020 £'000	Year ended 31 March 2021 £'000
UK	69	66	115
Rest of Europe	503	509	1,061
Americas	3,872	3,867	9,095
Rest of World	411	320	690
	4,855	4,762	10,961

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 2021 £'000	6 months ended 30 September 2020 £'000	Year ended 31 March 2021 £'000
Profit for the period	539	441	1,529

	Number	Number	Number
Weighted average number of shares – basic	57,107,449	50,482,281	51,359,410
– diluted	59,760,815	53,183,844	54,049,938

	Pence	Pence	Pence
Earnings per share – basic	0.9p	0.9p	3.0p
– diluted	0.9p	0.8p	2.8p

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 2021 Number	6 months ended 30 September 2020 Number	Year ended 31 March 2021 Number
Issued ordinary shares at start of period	57,143,357	50,523,926	50,523,926
Effect of treasury shares	(93,285)	(41,645)	(41,645)
Effect of issue of ordinary share capital	57,377	—	877,129
Weighted average number of shares – basic	57,107,449	50,482,281	51,359,410
Add back effect of treasury shares	93,285	41,645	41,645
Effect of share options in issue	2,560,081	2,659,918	2,648,883
Effect of convertible loan notes in issue	—	—	—
Weighted average number of shares – diluted	59,760,815	53,183,844	54,049,938

The effect of issue of ordinary share capital reflects the issue of 100,000 shares to facilitate the exercise of options by senior managers in June 2021 and the issue of 6,619,431 shares during the period 5 January to 19 February 2021 to facilitate the conversion of convertible loan notes into ordinary shares.

The convertible loan notes were anti-dilutive and therefore excluded from the calculation of diluted profit per share. Had the convertible loan notes been dilutive in nature, this would have increased the comparative 2021 and 2020 weighted average number of shares by 6,295,925 and 7,273,387 respectively.

5 Dividend

The Directors do not recommend the payment of a dividend.

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