

intercede

Intercede Group plc

Interim Report

2016



DIGITAL TRUST
from Silicon to Services

INTERCEDE GROUP plc

Interim Results for the Six Months Ended 30 September 2016

Chairman's Statement

Introduction

Intercede has benefited from six months of important strategic progress measured in terms of new partnerships, positive market developments and the initiation of critical proof of concept deployments for secure mobility and the Internet of Things. Unfortunately, during the same period we were affected by the deferment of a small number of particularly large orders. While none of these external delays are a comment on the fundamental strength of the business, the short term impact of more than £2 m of sales being deferred is significant in terms of our ability to continue the scale of our investment in business expansion.

The Company has implemented a plan to raise additional funding to ensure we are adequately resourced to exploit the opportunities we have created around future looking mobile and IOT digital trust solutions. I am pleased to say this fund raising has been successful and the Company has conditionally secured approximately £5.0m of additional cash via a conditional convertible loan note instrument and equity. This new funding will be principally deployed to ramp sales over the next two years in newly emerging regulatory markets in UK, Europe, Korea and the US. The funding has come from new institutions and seasoned technology entrepreneurs as well as some of our major existing investors. This demonstrates the confidence of our long term backers as well as illustrating that our strategic story resonates strongly with a new generation of technology and security savvy investors.

Additionally, we have removed more than £0.6m of annualized costs from the business compared to the start of the financial year without impacting our core delivery capabilities.

Financial Results

Revenues in the period totaled £2,828,000, a 49% reduction compared to the corresponding period last year. For the MyID platform, a large proportion of revenue is generated from US Government agencies, which have stalled investment decisions while bigger political events play out. We believe the conclusion of the US presidential race will result in a pick-up in the revenue run rate as business returns to normal and significant deferred orders – which, as noted above, amount to more than £2m are realised.

For the Company's newer products, RapID and MyTAM, the work put into business development has resulted in the identification of target markets and talks with reference customers in each of those markets. A RapID solution with a wealth management

company is expected to go live later in the year, along with a pilot for a large group of Italian banks. Intercede also continues to build on relationships with all of the major silicon designers and believes that the combined offering of RapID and MyTAM to the Internet of Things future is unmatched on the global stage. Both products are expected to generate significant revenues in future periods.

Planned investment in marketing and PR and business development of new markets, as outlined above, has resulted in a 14% increase in operating expenses from £5,670,000 to £6,448,000. The combined effect of planned investment and revenue deferment has resulted in an increase in operating losses from £447,000 to £3,678,000.

Staff costs continue to represent the main area of expense, representing 77% of total operating costs (2015: 78%). Intercede had 127 employees and contractors as at 30 September 2016 (30 September 2015: 125). The average number of employees and contractors during the period has risen to 128 (2015: 121).

An £898,000 taxation credit for the period (2015: £912,000 taxation credit) primarily reflects the 2016 Research & Development ("R&D") claim as a result of the investment activities outlined above. Whilst the 2015 R&D claim was received during September 2015, the 2016 claim was received during October 2016. The Group is a beneficiary of the UK Government's efforts to encourage innovation by allowing 130% (2015: 125%) of qualifying R&D expenditure to be offset against taxable profits and allowing 14.5% of the lower of R&D losses or taxable losses to be paid as tax credits.

A loss for the period of £2,773,000 (2015: profit of £480,000) resulted in a basic and a fully diluted loss per share of 5.7p (2015: basic earnings per share of 1.0p and a fully diluted earnings per share of 0.9p).

Cash balances as at 30 September 2016 totaled £1,377,000 compared to £5,289,000 as at 31 March 2016 and £5,767,000 as at 30 September 2015. As at 30 November 2016, cash balances had recovered to £2,567,000 due to the receipt of the 2016 R&D claim post period end and receipts from customers. Growth will continue to be funded through a combination of existing cash balances and the additional funding that has been announced separately to the Stock Exchange today.

Operational Highlights

There have been key wins in respect of product development and customer engagement, all of which will contribute to revenues in the current financial year and beyond:

- The successful completion of a proof of concept of a MyID virtual smartcard solution for a major German car manufacturer.
- Development of a RapID solution into an e-wallet application that is currently in trial and will be used by a large group of Italian banks.
- RapID has been implemented into an app for a London-based wealth management company that is expected to go live before the end of the year. This will enable

their customers to perform transactions easily and securely, rather than calling to transact through a broker.

- Initial tranche of licenses sold to a global biopharmaceutical company serving patients in 50 countries.
- Signed memorandum of understandings with a number of silicon and IoT IP companies to develop collaborative digital trust solutions for connected devices.
- Taken leadership roles in a number of industry initiatives relating to digital trust and cyber security.

Strategy and Outlook

Intercede's strategy remains unchanged, despite the short term challenges: to grow its digital trust service and software business from a core of existing high value reference customers to a much broader range of industry sectors and customer size.

Intercede plans to achieve this by continuing to generate revenues in its historically strong markets and to reinvest in the significantly higher growth opportunity that is anticipated in the Cloud-enabled, application service centric, mobile and Internet of Things markets. Intercede has already developed much of the required core technology, such as its MyID and MyTAM platforms. The strategic focus is now moving to packaging Intercede's portfolio of IP assets into new combinations to provide innovative solutions to some of the most intractable challenges of the digital economy.

In the medium term, RapID will contribute more to revenue than MyTAM. Target markets for RapID include those that are impacted by new regulations in the financial services and consumer sectors such as Payment Services Directive 2 (PSD2) and the General Data Protection Regulations (GDPR). MyTAM will be essential for solutions to the Internet of Things market and we believe the upside of success in this market is huge. For example, trusted applications on mobile devices will increase convenience, privacy and security for everyday consumer and business applications and, by 2020, the Internet of Things market is estimated to be in excess of 50 billion devices with each 'thing' needing to validate the trustworthiness of its peers across a network. Each point of trust is an opportunity for Intercede to provide an enabling service.

Our expectations are for accelerating year on year growth and turning the tens of millions of MyID identities into hundreds of millions of RapID/MyTAM app users. Our confidence is growing commensurately that, in the longer term, Intercede is exceptionally well placed to capitalise on the market for digital trust services.



Richard Parris
Chairman & Chief Executive
28 December 2016

Consolidated Statement of Comprehensive Income

For the period ended 30 September 2016

	6 months ended 30 September 2016 £'000	6 months ended 30 September 2015 £'000	Year ended 31 March 2016 £'000
Continuing operations			
Revenue	2,828	5,547	11,004
Cost of sales	<u>(58)</u>	<u>(324)</u>	<u>(410)</u>
Gross profit	2,770	5,223	10,594
Operating expenses	<u>(6,448)</u>	<u>(5,670)</u>	<u>(12,511)</u>
Operating loss	(3,678)	(447)	(1,917)
Finance income	<u>7</u>	<u>15</u>	<u>32</u>
Loss before tax	(3,671)	(432)	(1,885)
Taxation	<u>898</u>	<u>912</u>	<u>892</u>
(Loss)/profit for the period	<u>(2,773)</u>	<u>480</u>	<u>(993)</u>
Total comprehensive (expense)/income attributable to owners of the parent company	<u>(2,773)</u>	<u>480</u>	<u>(993)</u>
(Loss)/earnings per share (pence)			
- basic	(5.7)p	1.0p	(2.1)p
- diluted	<u>(5.7)p</u>	<u>0.9p</u>	<u>(2.1)p</u>

Consolidated Balance Sheet

As at 30 September 2016

	As at 30 September 2016 £'000	As at 30 September 2015 £'000	As at 31 March 2016 £'000
Non-current assets			
Property, plant and equipment	<u>822</u>	<u>835</u>	<u>864</u>
Current assets			
Trade and other receivables	2,718	1,812	1,146
Cash and cash equivalents	<u>1,377</u>	<u>5,767</u>	<u>5,289</u>
	<u>4,095</u>	<u>7,579</u>	<u>6,435</u>
Total assets	<u>4,917</u>	<u>8,414</u>	<u>7,299</u>
Equity			
Share capital	491	487	487
Share premium account	232	232	232
Other reserves	1,508	1,508	1,508
Retained earnings	<u>(1,441)</u>	<u>2,453</u>	<u>1,131</u>
Total equity attributable to owners of the parent company	<u>790</u>	<u>4,680</u>	<u>3,358</u>
Non-current liabilities			
Deferred revenue	<u>77</u>	<u>210</u>	<u>122</u>
Current liabilities			
Trade and other payables	1,745	1,109	1,795
Deferred revenue	<u>2,305</u>	<u>2,415</u>	<u>2,024</u>
	<u>4,050</u>	<u>3,524</u>	<u>3,819</u>
Total liabilities	<u>4,127</u>	<u>3,734</u>	<u>3,941</u>
Total equity and liabilities	<u>4,917</u>	<u>8,414</u>	<u>7,299</u>

Consolidated Statement of Changes in Equity

For the period ended 30 September 2016

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
At 1 April 2016	487	232	1,508	1,131	3,358
Issue of ordinary shares	4	–	–	–	4
Purchase of own shares	–	–	–	(68)	(68)
Employee share option plan charge	–	–	–	47	47
Employee share incentive plan charge	–	–	–	222	222
Loss for the period and total comprehensive expense	–	–	–	(2,773)	(2,773)
At 30 September 2016	<u>491</u>	<u>232</u>	<u>1,508</u>	<u>(1,441)</u>	<u>790</u>
At 1 April 2015	487	232	1,508	2,257	4,484
Purchase of own shares	–	–	–	(488)	(488)
Employee share option plan charge	–	–	–	57	57
Employee share incentive plan charge	–	–	–	147	147
Profit for the period and total comprehensive income	–	–	–	480	480
At 30 September 2015	<u>487</u>	<u>232</u>	<u>1,508</u>	<u>2,453</u>	<u>4,680</u>
At 1 April 2015	487	232	1,508	2,257	4,484
Purchase of own shares	–	–	–	(610)	(610)
Employee share option plan charge	–	–	–	115	115
Employee share incentive plan charge	–	–	–	334	334
Employee treasury share transfer	–	–	–	28	28
Loss for the year and total comprehensive expense	–	–	–	(993)	(993)
At 31 March 2016	<u>487</u>	<u>232</u>	<u>1,508</u>	<u>1,131</u>	<u>3,358</u>

Consolidated Cash Flow Statement

For the period ended 30 September 2016

	6 months ended 30 September 2016 £'000	6 months ended 30 September 2015 £'000	Year ended 31 March 2016 £'000
Cash flows from operating activities			
Operating loss	(3,678)	(447)	(1,917)
Depreciation	103	89	186
Employee share option plan charge	47	57	115
Employee share incentive plan charge	222	147	334
Employee unit incentive plan (credit)/charge	(4)	15	58
Employee treasury share transfer	–	–	28
(Increase) in trade and other receivables	(821)	(737)	(100)
(Decrease)/increase in trade and other payables	(46)	(32)	611
Increase/(decrease) in deferred revenue	236	413	(66)
Interest received	9	19	36
	<u>(3,932)</u>	<u>(476)</u>	<u>(715)</u>
Cash used in operations			
Taxation (paid)/received	(24)	912	892
	<u>(3,956)</u>	<u>436</u>	<u>177</u>
Net cash (used in)/generated from operating activities			
Investing activities			
Purchases of property, plant and equipment	(61)	(71)	(197)
	<u>(61)</u>	<u>(71)</u>	<u>(197)</u>
Cash used in investing activities			
Financing activities			
Purchase of own shares	(64)	(488)	(610)
	<u>(64)</u>	<u>(488)</u>	<u>(610)</u>
Cash used in financing activities			
Net decrease in cash and cash equivalents	(4,081)	(123)	(630)
Cash and cash equivalents at the beginning of the period	5,289	5,895	5,895
Exchange gains/(losses) on cash and cash equivalents	169	(5)	24
	<u>1,377</u>	<u>5,767</u>	<u>5,289</u>
Cash and cash equivalents at the end of the period			

Notes to the Consolidated Accounts

For the period ended 30 September 2016

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 2016.

The Group is not required to apply IAS 34 Interim Financial Reporting at this time.

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 2016 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 (losses)/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 2016 £'000	6 months ended 30 September 2015 £'000	Year ended 31 March 2016 £'000
UK	139	313	462
Rest of Europe	461	570	1,312
North America	1,987	4,410	8,699
Rest of World	241	254	531
	<u>2,828</u>	<u>5,547</u>	<u>11,004</u>

3. Taxation

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

4. (Loss)/earnings per share

The calculations of the (loss)/earnings per ordinary share are based on the (loss)/profit for the period and the weighted average number of ordinary shares in issue during each period. The basic and diluted loss per share are the same as potential dilution cannot be applied to a loss making period.

	6 months ended 30 September 2016 £'000	6 months ended 30 September 2015 £'000	Year ended 31 March 2016 £'000
(Loss)/profit for the period	<u>(2,773)</u>	<u>480</u>	<u>(993)</u>
	Number	Number	Number
Weighted average number of shares			
– basic	48,507,555	48,426,005	48,429,489
– diluted	<u>48,507,555</u>	<u>50,751,688</u>	<u>48,429,489</u>
	Pence	Pence	Pence
Earnings/(Loss) per share			
– basic	(5.7)p	1.0p	(2.1)p
– diluted	<u>(5.7)p</u>	<u>0.9p</u>	<u>(2.1)p</u>

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 2016 Number	6 months ended 30 September 2015 Number	Year ended 31 March 2016 Number
Issued ordinary shares at start of period	48,735,005	48,735,005	48,735,005
Issue of ordinary shares	66,550	–	–
Effect of purchase of treasury shares	<u>(294,000)</u>	<u>(309,000)</u>	<u>(305,516)</u>
Weighted average number of shares			
– basic	<u>48,507,555</u>	<u>48,426,005</u>	<u>48,429,489</u>
Add back effect of purchase of treasury shares	N/A	309,000	N/A
Effect of share options in issue	<u>N/A</u>	<u>2,016,683</u>	<u>N/A</u>
Weighted average number of shares			
– diluted	<u>48,507,555</u>	<u>50,751,688</u>	<u>48,429,489</u>

5. Dividend

The Directors do not recommend the payment of a dividend.

intercede

sales sales@intercede.com
general inquiries info@intercede.com
customer support support@intercede.com
career inquiries careers@intercede.com

UK
Lutterworth Hall, St. Mary's Road,
Lutterworth, Leicestershire LE17 4PS, UK
T +44 (0)1455 558 111

US
Suite 920, 1875 Explorer Street,
Reston, VA 20190, USA
T +1 888 646 6943

