Ideagen PLC - IDEA Interim Results
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22nd January 2020

Ideagen PLC

("Ideagen" the "Company" or the "Group")

Unaudited Interim Results for the six months ended 31 October 2019

Ideagen PLC (AIM: IDEA), a leading supplier of Integrated Risk Management software to highly regulated industries, announces its unaudited interim results for the six months ended 31 October 2019.

Financial Highlights

- First half performance in line with market expectations and confident outlook for second half
- Revenue increased 30% to £27.3 million (H1 2018: £21.0 million)
    - Continued growth of recurring revenues, representing 74% (H1 2018: 67%) of total revenues
    - SaaS revenues increased by 76% to £9.7 million (H1 2018: £5.5 million)
    - Underlying organic revenue growth* of 7% (H1 2018: 8%)
- Annual Recurring Revenue book (ARR) was up 20% at approximately £43.9 million (£36.4 million at 30 April 2019)
    - Acquisition-led growth of £3.8 million
    - Organic growth of £3.7 million - 10% in period (H1: 2018 7%) 20% annualised
    - 48% increase in SaaS bookings (H1 2018: 80%)
- Adjusted EBITDA** on an IFRS16 basis grew 38% to £8.0 million (H1 2018: £5.8 million on an IAS17 basis)
    - Adjusted EBITDA** on a like for like IAS17 basis (note 2) grew 30% to £7.5 million (H1 2018: £5.8 million).
- Adjusted PBT*** increased by 25% to £6.0 million (H1 2018: £4.8 million)
- Adjusted diluted EPS*** increased by 17% to 2.31 pence (H1 2018: 1.98 pence)
- Cash generated by operations of £5.9 million (H1 2018: £5.2 million) representing 74% (H1 2018: 90%) of adjusted EBITDA**
- Net bank debt at 31 October 2019 was £18.0 million (30 April 2019: £1.3 million; 31 October 2018: £1.3 million)
- Interim dividend increased by 15.6% to 0.104 pence per share (H1 2018: 0.09 pence)

Operational Highlights

- Acquisition of Redland Solutions Ltd a fast growing, profitable RegTec SaaS company supplying software to the financial services industry
- Acquisition of Optima Diagnostics Limited a SaaS based Health and Safety compliance company
- Strong international growth with 90% of all new SaaS logo wins outside of the UK
- 206 new logo SaaS customer wins including - Emirates Group , SSE, Mallinckrodt Pharmaceuticals, Royal London, Washington Department of Transport, Vietjet Air, Natixis
- 73 new logo on-premise customer wins including Merck, Directorate General of Civil Aviation, Mater Hospitals and Health Services, Sandia National Laboratories, Electoral Commission, YASREF
- Strong account management with significant contract extensions from Excujet, Uniphar, Sanofi, Southern Water, Commerzbank, Sunclass Airlines. Oshkosh Defense, Belfast Health & Social Care Trust Enterprise
- Continued high levels of customer retention with support and maintenance contract renewal rate of 95%
- Ongoing product innovation and investment across all products with strong emphasis on cloud solutions

* Comparison calculated on a pro-forma basis as if acquisitions had been in the Group for the same period in the previous year

** Before share-based payments and exceptional items

*** Before share-based payments, amortisation of acquisition intangibles and exceptional items

Ben Dorks, Chief Executive of Ideagen, commented:

"I am delighted with the progress we have made against our business objectives in the first six months. A key growth metric is ARR, in which we have delivered excellent growth. This was driven by a strong organic performance, further acquisitions and ongoing investment to support our product development.

We continue to achieve organic ARR growth across each of our key vertical markets which is strengthened by the successful integrations of InspectionXpert, Morgan Kai and Scannell (acquired late in our previous financial year).

The second half of the year has begun in line with our expectations. We continue to win new logo customers which, coupled with the repeat business derived from more than 4,500 customers and our strong ARR base, provides the Board with confidence in the prospects for the Group for the current year and beyond."

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About Ideagen plc

Ideagen is a UK-headquartered, global technology company quoted on the London Stock Exchange AIM market (Ticker: IDEA.L).

The Group provides software and services to organisations operating within highly regulated industries such as aviation, banking and finance and life science, with operational premises spread throughout the UK, EU, US, Middle East and SE Asia.

With an excellent portfolio of software products including Q-Pulse, Coruson, Pentana Audit, Pentana Risk and PleaseReview, Ideagen helps its clients reduce costs, improve operational efficiency, strengthen compliance and oversight and anticipate and manage every detail of risk.

Currently, more than 4,700 organisations use Ideagen's products including seven of the top 10 UK accounting firms, all of the top aerospace and defence companies and 75% of the world's leading pharmaceutical firms.

Ideagen's diverse and varied customer base includes many well-known, global brands such as British Airways, Aggreko, BAE, Ryanair, US Navy, KLM, BBVA, Bank of New York, Commerzbank, Meggitt, Heineken, Johnson Matthey, Haeco Group and European Central Bank. As well as this, Ideagen counts 250 hospitals across the UK and US amongst its client base.

Ideagen directly employs over 500 members of staff and is present in every continent globally.

CHIEF EXECUTIVE'S REVIEW

I am delighted to report that the first six months has continued to be a success for Ideagen based on strong customer demand and sales execution in the period during which we have achieved a strong performance in all metrics. Our results demonstrate the transition to a recurring model is progressing successfully ahead of schedule whilst we continue to deliver robust margins and cash conversion.

The board now considers the most relevant growth metric as being Annual Recurring Revenue ("ARR"). –Increasing by approximately 20 per cent from £36.4 million on 30 April 2019 to £43.9 million on 31 October 2019. This comprises of acquisition-led growth of £3.8 million combined with organic growth of £3.7 million.

The Group has made excellent strategic progress in implementing its strategy of organic and acquisitive growth and we are excited to see that continue. We have completed two acquisitions during the period that has strengthened our product portfolio and provides further consolidation opportunities and capability to support our customer base. We continue to be extremely encouraged by the success in our priority international markets of North America and Asia, that continues to form a significant expansion opportunity for the Group.

Total revenue of £27.3 million (H1 2018: £21.0 million), representing overall growth of 30% and adjusted EBITDA that grew 38% (on an IFRS16 basis) to £8.0 million (H1 2018: £5.8 million on an IAS17 basis). A further key financial metric for the Group that continues to be important is EPS and I am pleased to report an increase in adjusted diluted EPS of 17% to 2.31 pence (H1 2018: 1.98 pence).

Market drivers and growth opportunities

Ideagen operates in a global market and is fuelled by several drivers that propel us to achieve our goal of strong structural growth. Businesses around the world continue to need innovative solutions to help them meet increasingly stringent compliance, quality, safety, and regulatory risk requirements.

Ideagen's product-market strategy is focused in two areas:

QHSE - Quality, Health & Safety and Environmental Management -

- Compliance with existing and new standards, laws and regulations
- Conformance with customer requirements, including, for example, new pressures for risk-based shop floor quality management in manufacturing supply chains
- Efficiency and productivity in quality, safety and environmental management; for example, being able to comply with new or more stringent requirements without increasing headcount in the compliance team
- Improving performance in these areas, for example by reducing the number of safety incidents in which employees are harmed, ensuring that important quality audits are passed successfully

ARC - Audit, Risk and Compliance Management -

- Pursuit of a sustainable competitive advantage through risk-based compliance and oversight
- Establishing a strong governance model to deliver resilience, compliance and strategic goals
- Productivity of internal audit teams through automation of their business processes
- Compliance with laws and regulations such as SOX, UK Companies Act, SM&CR or ASC 275
- Stewardship of brand and reputation

These key market opportunities overlaid with a vertical concentration in aviation, aerospace, automotive and defence manufacturing, life sciences, healthcare, financial services and banking; provides global opportunity for growth with the accelerating shift towards a cloud economy.

Overview

Following continued strong financial performance Ideagen has the capability and resources to make important investments across the Group. These investments will support further growth in line with our People, Products and Customers. Organic investment will be directed at developing and launching additional world-class products, improving the value-based outcomes for our customers, as well as recruiting and developing the very best people into Ideagen. We intend to support this organic investment by considering acquisitions that broaden our geographic reach and strengthen our product capabilities.

Corporate Transactions

Ideagen has a strong track record of acquiring companies. During the period we have completed two further acquisitions to strengthen our product and technology capabilities, broaden our international reach and customer base, which in turn brings us closer to our strategic goal of being a global leader in our chosen markets.

The first of these was Redland Business Solutions Ltd ("Redland") for a net consideration of £15.8 million. Redland is a fast growing, profitable RegTec SaaS company supplying software to the financial services industry. With solutions that underpin the Senior Manager & Certification Regime (SMCR) and individual employee competency. Customers include Nomura, Santander, Investec, Hargreaves Lansdown, and Rathbones. Current run rate revenues are approximately £4.2 million while ARR is approximately £3 million.

Redland is an extremely valuable addition to the Group and in line with our strategy of acquiring Integrated Risk Management businesses that have strong IP and growing recurring revenues. Financial Services is an important vertical market for Ideagen and the combination of Redland's Insight Platform with Ideagen's Pentana products provides a compelling proposition covering internal audit, risk management, certification and SMCR compliance.

Since the acquisition, Redland has performed strongly securing twelve new logo wins with a combined contract value of £1.6 million, including prestigious clients such as Natixis, Alexander Hall, TPICAP and IG Group.

This was followed by the acquisition of Optima Diagnostics Limited ("Optima") for a cash consideration of £1.8 million. Optima is a Software as a Service ("SaaS") company that has developed OSHENS, a SaaS based Health and Safety compliance solution with approximately 80 customers across highly regulated markets including Airbus, Sellafield, BAE Systems and Edinburgh Airport. On a current run rate, Optima is generating approximately £1 million in revenues and £900k ARR.

The Global Quality, Health, Safety and Environmental (QHSE) market is valuable yet fragmented and the acquisition will further enhance our market position as we aim to further consolidate this sector.

The Board remains committed to our ongoing buy and build strategy and expects to complete further acquisitions in the future. Our acquisition strategy focuses on recurring revenues and compelling product offerings. Continually applying strict criteria to ensure that acquisitions represent value for shareholders.

Operational

At the end of the period the Group had net debt of £18.0 million (30 April 2019: net debt of £1.3 million) after spending £19.8 million on acquisitions. Operating cash generation in the period remained robust and in line with the Board's expectations.

The Group continues to benefit from a strong and growing base of recurring revenues, representing 74% of total revenue in the period (H1 2018: 67%). The Group is committed to increasing the percentage of total revenue derived from recurring contracts through the medium-term transition of a traditional licence-based model to a SaaS subscription model. This transition is underway and recurring SaaS revenues have increased by 76% to £9.7 million (2018: £5.5 million)

The InspectionXpert and Morgan Kai acquisitions from FY2019 have been successfully integrated using our mature 72 point integration framework. The Scannell acquisition has been rebranded and integrated as the new Q-Pulse Law product with good early market feedback and sales execution.

People

At 31 October 2019 Ideagen counted 542 employees across its UK and international office network, with the majority located at our Centres of Excellence: Nottingham HQ (UK), Glasgow (UK), Kuala Lumpur (Malaysia), Raleigh (US). A combined total of 129 people situated internationally.

The organisation continues its significant investment within our Technology teams, adding both depth, breadth, and further leadership during the period. 32% of resource is dedicated to this area, primarily based in Nottingham and Malaysia. Ideagen maintains its focus upon building domain expertise within core markets and delivering excellence across the customer base. As a result, the Group has 27% within Sales & Marketing, and 29% in Customer Delivery, Support and Success.

Ideagen continues to believe a broad talent pool across the company is the best way to ensure sustainable growth. As such it is pleased to confirm 54% of employees have been with the Group for 3 or more years, and 30% have been with the company 6 years or more. Although we acknowledge this is a traditionally male dominated sector, we are delighted to see strong growth in female applications, resulting in an improved ratio of 64% male to 36% female.

I am immensely proud to work with such a committed and talented team and delighted to see it reflected in positive feedback from customers.

Current Trading & Outlook

Trading since the period end has remained robust and we continue to see strong demand for our products from new potential customers. With acquisitions made during the previous year integrating and performing well, supported by our base of over 4,700 customers who continue to generate growth through recurring revenues and repeat business. The Board has every confidence in the continued prospects for the Group.

Ben Dorks

Chief Executive Officer

Case Study

Q-Pulse Case Study: Kingspan Group Plc

Leading Manufacturer in Innovative and Sustainable Energy Efficient Buildings Implements Q-Pulse as a Centralised System to Improve Compliance Across Multiple Sites Worldwide**.**

Kingspan is a global manufacturer of insulated panels and associated construction products. Starting as a small engineering and contracting business back in 1965, Kingspan now have over 11,000 employees across 5 continents. They take pride in branding themselves as "a global company with local roots." With a strong vision for innovation and sustainability, Kingspan lead the way in creating energy efficient buildings with a view that no one should have to choose between efficiency, sustainability, style and safety.

With innovation at the heart of every product, project and through every stage of the manufacturing process, it is essential for Kingspan to consider quality, health, safety and environmental (QHSE) legislation compliance throughout every decision. Being audited against ISO standards, a system was required to bring together Kingspan's QHSE management into one centralised, cohesive solution for all sites to access.

Kingspan have multiple sites across the globe and are expanding. Working across 5 continents with over 11,000 employees, Kingspan must ensure that they are able to comply with legislation in the various locations in which they operate.

They needed a system that would help employees understand the legislation and check they are compliant against each.

Paul McGowan, HSE Divisional Manager at Kingspan Panels, had responsibility for implementing a management system that would help him to carry out compliance audits across all sites and allow him to effectively advise and support site management.

Kingspan selected Ideagen's Q-Pulse suite of products, namely Q-Pulse Quality Management Software and Q-Pulse Law for managing their quality, health, safety and environmental management processes.

Within Kingspan, Paul says "A number of our sites use Q-Pulse for document control, incident reporting, internal audit actions and have done so for many years. Q-Pulse is a very powerful tool which provides secure document management, allows other sites across the globe to share documents and provides one area to record and manage incidents."

When operating across 5 continents it can be a huge challenge to ensure compliance with legislation in each jurisdiction. The Q Pulse Law Module is an EHS legislation and compliance content service that provides a summarised library which can be filtered to the exact legislation for specific countries and regions. This enables Kingspan to understand each location's legislation and what is required for full compliance.

"Q-Pulse Law is used for two reasons; first it allows each site to have a regularly updated legal register specific to their requirements, which allows them to measure compliance with the built in Check List. Secondly, I use Q-Pulse Law in my role to establish local laws and verify compliance as part of the audit. The system is also used to be directed to the statute books and to be able to read the laws for further knowledge and compliance checks" Paul McGowan explains.

"The main benefit of Q-Pulse Law is that it provides those onsite, who do not have a legal degree or capacity to research and understand the law, with a check list which, when completed, provides a good standard of compliance for our sites."

"Q-Pulse can be accessed anywhere in the world so, at a glance, it is easy for me to establish legal compliance levels for each of the sites on the law module" explains Paul. "We can also audit document reviews, and actions outstanding from incidents from one location and even track it down to individual owners. The system provides e-mail notification and reminders and has helped us share and monitor the management systems."

As well as being able to access from all sites at any point, Q-Pulse also allows Kingspan to carry out audits, manage incidents and provides notifications and reminders to action-owners. This ensures that individuals take ownership of actions, incidents are managed effectively and management have full visibility of any sites with recurring incidents or non-conformances. This is hugely beneficial, particularly for Health, Safety and Environmental management across all sites.

Currently, Kingspan comply with 5 of the ISO standards - 18001, 14001, 9001, 6001 and 50001. Q-Pulse is used to demonstrate compliance and continually improve business activities in relation to each standard. Paul highlights "All of these standards require some sort of management of the procedures to regularly review, update and record the changes; Q-Pulse does this automatically for us."

Q-Pulse supports Kingspan with their overall vision of sustainability, both for customers and for Kingspan itself, as they can clearly demonstrate compliance to ISO 14001 and ascertain how environmentally sustainable, they are operating. In addition, as they work towards ISO 45001, Q-Pulse will efficiently and smoothly support the transition.

Pentana Case Study: Admiral Group Plc

Admiral Group plc streamline global risk management with Ideagen's Pentana Risk

The history of Admiral Group is one of growth, profitability and innovation. Admiral launched in 1993 with just one brand, zero customers and 57 members of staff. On 23rd September 2004, Admiral floated on the London Stock Exchange and became Wales' only FTSE 100 company. The Group now offers home, van and travel insurance as well as personal loans and car finance in the UK, has operations in Spain, Italy, France, the US, Canada, India, Mexico and Turkey, and has over 6.5 million customers worldwide.

In maintaining a global presence and diverse portfolio of financial products, as well as protecting their market-leading position, Admiral's risk management program is vitally important. There was a desire to improve the oversight of the risk profile throughout the Group and create a more streamlined and improved reporting capability. This desire brought Admiral to the conclusion that a new software solution was needed to demonstrate effective risk management capabilities and a strong risk-aware culture throughout the Group.

After evaluating several different vendors, Admiral chose Ideagen's Pentana Risk to provide them with the assurance they need that they're meeting the requirements of not only the regulators, but also their executive teams and boards. For large global organisations like Admiral, the management team need accurate, actionable data on their organisation's top risks so they can make informed decisions quickly.

Huw Thomas, Enterprise Risk Manager at Admiral, had a very clear vision for what the new system needed to deliver.

"There were three main challenges we faced with our old system. We used to struggle for hours trying to create bespoke reports and needed a way to quickly create tailored, drillable reports. Similarly, aggregation of risk was incredibly time-consuming and was mainly done on spreadsheets; with a company of Admiral's size this quickly became unmanageable. And finally, end-user buy in - the old system was not user friendly and was poorly adopted within the business. When implementing Pentana Risk, it was crucial that these needs were met."

Since implementing Pentana Risk, Admiral have transformed the risk management function into a streamlined, centralised system for creating a single source of truth for risk enterprise-wide.

Mr Thomas stated: "The benefits of Pentana Risk were apparent almost immediately. With Pentana Risk, we're able to create unique portals for stakeholders across the business to let them identify key risks quickly. We can compare risks across the globe, and it allows users to update in real time so we can get an accurate and up-to-date picture of the risks facing Admiral Group.

"We can produce reports in a matter of minutes, keeping senior executives informed about Admiral's top risks. We can re-use them with a click of a button to produce a variety of different reports for different audiences and tailor it to their specific requirements.

"Pentana Risk is very intuitive and buy-in from the business has been very successful. By giving each business unit the tools to control their own risk management, Admiral's oversight has dramatically improved - the Enterprise Risk team can take a step back and look at the holistic picture of risk, incorporating a more corporate and strategic view."

More than the ability to deliver everything they wanted in a risk management system; Admiral chose to partner with Ideagen because they stood out as a good cultural fit for the organisation.

"Its ability to be specifically tailored to Admiral made Pentana Risk really stand out from the crowd. We spent time with Ideagen configuring the system to make sure it met Admiral's needs, and that support continued to ensure the system was fully embedded. We get a great deal out of the relationship with Ideagen and feel that the direction of the product is extremely positive."

FINANCIAL AND OPERATIONAL REVIEW

The Group has adopted IFRS16 "Leases" with effect from 1 May 2019 using the modified retrospective approach to transition and has therefore, not restated any prior period information in the Statement of Comprehensive Income, the Statement of Financial Position and the Statement of Cash Flows. Accordingly, the results for the six months ended 31 October 2019 are not directly comparable with those presented in the prior period under the previously applicable accounting standard IAS17 "Leases". In order to show the impact of IFRS16 and to facilitate a comparison of results with the prior year, a reconciliation of results for the 6 months ended 31 October 2019 as reported on an IFRS16 basis with the former IAS17 basis has been presented in note 2.

Revenue for the six months ended 31 October 2019 increased by 30% to £27.3 million (2018: £21.0 million). Within this, pro-forma organic revenue growth was 7% (2018: 8%). This is calculated based on a comparison with pro-forma revenue for H1 2018/19 of £25.6 million which includes revenues for InspectionXpert, Morgan Kai, Scannell, Redland and Optima for the equivalent period that they were owned by the Group in H1 2019/20.

Revenues are analysed by revenue type in note 3.

Recurring revenues are a key strategic focus and they have grown strongly due to an emphasis on growing sales of our SaaS/Subscription-based products and the acquisitions of businesses with high levels of recurring revenues. The Annualised Recurring Revenue (ARR) book has grown by approximately 20 per cent. from £36.4 million on 30 April 2019 to £43.9 million on 31 October 2019. This comprises of acquisition-led growth of £3.8 million combined with organic growth of £3.7 million within the period, representing approximately a 20 per cent. organic growth rate on an annualised basis.

Total recurring revenues increased by 45% to £20.3 million (2018: £14.0 million) representing 74% (2018: 67%) of overall revenues. This proportion has improved consistently since 2016 when recurring revenues represented only 53% of total revenues.

SaaS revenues increased by 76% to £9.7million (2018: £5.5 million) representing 36% (2018: 26%) of Group revenue. Support & Maintenance revenues continued to grow both through new perpetual licence sales and through the acquisition of Morgan Kai where significant proportions of recurring revenues have historically come from the perpetual licence model. Support & Maintenance revenues increased by 25% to £10.6 million (2018: £8.5 million) but represented a slightly reduced proportion of total revenues at 39% (2018: 41%) due to the focus on SaaS growth.

Professional services revenues represented 11% (2018: 11%) of total revenues. The higher proportion of professional services revenues in Redland was offset by the increasing proportion of SaaS sales that require less configuration work.

Licence & Software development kit revenues decreased to £3.8 million (2018: £4.5 million) representing 14% (2018: 21%) of total revenue in line with the increasing emphasis on SaaS sales.

Adjusted EBITDA for H1 2019/20 reported on an IFRS16 basis increased by 38% to £8.0 million (2018: £5.8 million reported on an IAS17 basis). £0.5 million of the increase in adjusted EBITDA in H1 2019/20 was due to lower office rent charges following the adoption of IFRS16. The adjusted EBITDA margin increased to 29.4% (2018: 27.5%) largely as a result of the adoption of IFRS16. On an IAS17 basis, the adjusted EBITDA margin in H1 2019/20 would have increased marginally to 27.6%. Gross margin improved slightly to 91.4% (2018: 91.2%). Operating costs continue to be tightly controlled representing 62.1% (2018: 63.7%) of revenue. On an IAS17 basis operating costs in H1 2019/20 would have represented 63.8% of revenue. We recognise the need to continue targeting investment in our staff and the operational systems of the business to support continued organic growth and to provide a strong, scalable platform for the integration of future acquisitions.

The Group has significant intangible assets, primarily from the acquisitions that it has made. Amortisation of acquisition intangibles of £4.8 million (2018: £3.4 million) represents the majority of the total depreciation and amortisation charge of £6.5 million (2018: £4.3 million). Amortisation of development costs amounted to £0.9 million (2018: £0.7 million). Following the adoption of IFRS16 on 1 May 2019, a number of Right of use assets in respect of the group's leased offices were recognised for the first time. At 31 October 2019 the net book value of the Right of use assets amounted to £3.3 million. The depreciation charge on these assets in the six months ended 31 October 2019 amounted to £0.5 million.

The share-based payment charge of £0.8 million (2018: £0.9 million) relates to the Group's equity-settled share option schemes including the Long-Term Incentive Plan and the Share Incentive Scheme for employees. The 2018 charge included £0.4 million of national insurance costs on the exercise of non-tax efficient options. The remainder of the share-based payment charge does not represent a cash cost to the Group.

The Group incurred costs of £0.2 million (2018: £0.8 million) in acquiring the businesses during the period. Restructuring charges were significantly higher in H1 of 2018 (£0.3 million) following the closure of several offices and some reorganisation of the business which has not been repeated in H1 of this year.

The adjusted Group tax charge is analysed in note 6 and amounted to £0.8 million (2018: £0.6 million). This has been adjusted to exclude the deferred tax effects associated with the amortisation of acquisition intangibles and share based payment charges. The adjusted Group tax charge represents 12.6% (2018: 12.0%) of adjusted profit before tax of £6.0 million (2018: £4.8 million). The slightly increased tax rate is largely due to the increased level of profits earned in the United States which attract higher rates of tax than in the UK. The Group's use of R&D tax credit claims and tax deductions linked to the exercises of share options in particular have significantly reduced the Group's liability to UK corporation tax.

As a result of the above, adjusted diluted earnings per share increased by 17% to 2.31 pence (2018: 1.98 pence). There was no significant effect on earnings per share from the adoption of IFRS16 in the current period.

The Group's financial position has continued to strengthen during the period with net assets increasing to £75.2 million (30 April 2019: £73.7 million; 31 October 2018 £71.7 million).

The value of intangible assets increased to £109.0 million (30 April 2019: £90.7 million) mainly as a result of the acquisitions of Redland and Optima completed during the period. The Group capitalised £1.9 million (2018: £1.3 million) of R&D development costs during the period which represented 7.1% (2018: 6.2%) of total revenues. The increase is due to product development by the businesses acquired during the period and the previous year and to a particularly focused period of product development on our core Q-Pulse product.

Starting with the purchase of Medforce in April 2018, the Group's approach to the funding of acquisitions has been more evenly balanced between using debt and equity together with the Group's own cash generation. The strong cash flow and recurring revenue profile of the business mean that the Group has been able to secure relatively inexpensive debt funding. The acquisitions of Medforce, InspectionXpert and Scannell in 2018 and early 2019 were funded through increases in the Group's Revolving Credit Facility together with the Group's own cash generation and the acquisition of Morgan Kai in 2018 was primarily funded through a heavily oversubscribed share placing which raised £19.4 million net of costs.

The acquisitions of Redland and Optima in H1 2019/20 were both funded from a combination of the Group's cash generation and the Revolving Credit Facility. As a result, net bank debt (excluding finance lease liabilities under IFRS16) increased to £18.0 million at 31 October 2019 (30 April 2019: £1.3 million) which represented just under 1X the adjusted EBITDA forecast for the current financial year.

Following the adoption of IFRS16 "Leases" on 1 May 2019, the Group has recognised finance lease liabilities on a number of the group's leased offices. At 31 October 2019 the group had total finance lease liabilities of £3.2 million.

Cash generated by operations during the period amounted to £5.9 million (2018: £5.2 million) representing cash conversion of approximately 74% (2018: 90%) of adjusted EBITDA. In H1 2019/20 this cash conversion metric was affected to some extent by the seasonal billing profile of recurring revenues at Redland (acquired in June 2019) which is concentrated on early Autumn and late Winter. We expect cash generation at Redland will be particularly strong in H2. The cash generation profile of the existing group has always had some bias in favour of H2 as the billing of recurring revenues is slightly weighted towards H2. We expect that this trend will continue in the current financial year.

Working capital, as recorded in the cash flow statement, increased by £2.1 million between 30 April 2019 and 31 October 2019. As part of this, receivables increased by £2.2 million due to significant organic growth in SaaS billings and increased organic growth in the wider business together with some significant seasonal billings in October 2019 at Redland.

Free Cash Flow in the period amounted to £2.2 million (2018: £2.6 million) representing 28% (2018: 45%) of adjusted EBITDA or 8% (2018: 12%) of Revenue. Free Cash Flow before payments of acquisition costs of £0.6 million (2018: £0.3 million) was £2.8 million (2018: £2.9 million) representing 35% (2018: 50%) of adjusted EBITDA or 10% (2018: 14%) of Revenue.

Operational Review

In order to facilitate the growth, Ideagen invests heavily in 'best of breed' cloud systems that have scalability, functionality and reporting at their core. Salesforce.com and NetSuite remain the number one systems for the organisation, providing the internal platform for sales / marketing / finance, but these are supported by several functionally specific cloud solutions such as Zendesk, Natero, Peakon, Krow, and Jira. These packages are collectively used to provide analytics and Management Information (MI) in support of strategic decision making across Ideagen.

As Ideagen develops, significant resource is invested in benchmarking processes and systems to ensure best practice is standard and that Ideagen remains fit for growth. Ideagen remains committed to relevant accreditations and currently holds Microsoft Gold Partner status, ISO 9001, ISO 27001, ISO45001, and ISO 14001. The Group has membership of a significant number of leading bodies including the Chartered Quality Institute (CQI), Institute of Internal Auditors (IIA), Flight Safety Foundation, and the Institute of Biomedical Science (IBMS).

Dividend

The Board proposes to increase the interim dividend by 15.6% to 0.104 pence per share (2018/19: 0.09 pence per share) payable on 18th March 2020 to shareholders on the register on 28th February 2020. The corresponding ex-dividend date is 27th February 2020.

Graeme Spenceley

Chief Financial Officer

Ideagen plc

IFRS16 was adopted on 1 May 2019 and applied for the period to 31 October 2019 without restating prior year figures. As a result, the primary statements are shown on an IFRS16 basis for the period to 31 October 2019 and on an IAS17 basis for all periods prior to 1 May 2019. Note 2 provides some reconciliations and further information on the two measures.

Group Statement of Comprehensive Income for the six months ended 31 October 2019

	2019 (IFRS 16 basis) £'000	**2018 (IAS 17 basis) £'000**
Revenue (note 3)	27,310	20,991
Cost of sales	(2,346)	(1,853)
Gross profit	24,964	19,138
Operating costs	(16,946)	(13,375)
Profit from operating activities before depreciation, amortisation, share-based payment charges and exceptional items	8,018	5,763
Depreciation and amortisation	(6,464)	(4,292)
Costs of acquiring businesses	(236)	(793)
Restructuring costs	(34)	(267)
Share-based payment charges	(796)	(948)
Profit / (loss) from operating activities	488	(537)
Finance costs	(395)	(98)
Profit / (loss) before taxation	93	(635)
Taxation credit (note 5)	242	78
Profit / (loss) for the period	335	(557)
Other comprehensive income		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translating foreign operations	(20)	978
Corporation tax on exercise of options	388	233
Total comprehensive income for the period attributable to the owners of the parent company	703	654
Earnings per share (note 4)	**Pence**	**Pence**
Basic	0.15	- 0.27
Diluted	0.15	- 0.42

Group Statement of Financial Position at 31 October 2019

	31 October 2019 (IFRS16 basis)	30 April 2019 (IAS17 basis)	31 October 2018 (IAS17 basis)
	£'000	**£'000**	**£'000**
Assets and liabilities			
Non-current assets			
Intangible assets	109,000	90,749	91,122
Property, plant and equipment	1,487	1,069	1,219
Right of use assets	3,295	-	-
	113,782	91,818	92,341
Current assets			
Trade and other receivables	20,327	17,547	15,495
Cash and cash equivalents	5,769	6,199	5,947
	26,096	23,746	21,442
Current liabilities			
Trade and other payables	6,008	6,043	6,872
Current income tax liabilities	532	387	308
Bank borrowings	23,750	7,500	7,250
Finance lease liabilities	1,034	-	-
Deferred revenue	20,842	18,570	16,846
Contingent consideration on business combinations	500	769	-
Deferred consideration on business combinations	500	1,269	2,030
	53,166	34,538	33,306
Non-current liabilities			
Finance lease liabilities	2,202	-	-
Deferred income tax liabilities	9,265	7,344	8,820
	11,467	7,344	8,820
Net assets	75,245	73,682	71,657

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Group Statement of Financial Position at 31 October 2019 (continued)

	31 October 2019 (IFRS16 basis)	30 April 2019 (IAS17 basis)	31 October 2018 (IAS17 basis)
	£'000	**£'000**	**£'000**
Equity			

Issued share capital	2,236	2,198	2,192
Share premium	54,639	53,948	53,661
Merger reserve	1,658	1,658	1,658
Share-based payments reserve	1,881	1,440	1,050
Retained earnings	14,010	13,597	11,918
Foreign currency translation reserve	821	841	1,178
Equity attributable to owners of the parent	75,245	73,682	71,657

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Group Statement of Cash Flows for the six months ended 31 October 2019

	2019 (IFRS16 basis) £'000	**2018 (IAS17 basis) £'000**
Cash flows from operating activities		
Profit / (loss) for the period	335	(557)
Depreciation of property, plant and equipment	262	210
Depreciation of right of use assets	466	-
Amortisation of intangible non-current assets	5,736	4,082
Business acquisition costs in profit or loss	236	793
Share-based payment charges in profit or loss	796	948
Restructuring costs in profit or loss	34	-
Finance costs recognised in profit or loss	395	98
Taxation credit recognised in profit or loss	(242)	(78)
Increase in trade and other receivables	(2,157)	(1,715)
(Decrease)/increase in trade and other payables	(365)	232
Increase in deferred revenue	415	1,194
Cash generated by operations	5,911	5,207
Finance costs paid	(484)	(88)
Income tax paid	(26)	(57)
Restructuring costs paid	(34)	-
Employer's national insurance paid on share-based payments	-	(320)
Business acquisition costs paid	(615)	(327)
Net cash generated by operating activities	4,752	4,415
Cash flows from investing activities		
Net cash outflow on acquisition of businesses net of cash acquired	(17,596)	(24,330)
Payments of deferred consideration on business combinations	(769)	-
Payments of contingent consideration on business combination	(769)	-
Payments for development costs	(1,944)	(1,294)
Payments for property, plant and equipment	(624)	(490)
Net cash used by investing activities	(21,702)	(26,114)
Cash flows from financing activities		
Proceeds from placing of equity shares	-	20,000
Payments for share issue costs	-	(626)
Proceeds from issue of shares under share option scheme	685	155
Proceeds from issue of shares under share incentive scheme	44	40
Cost of shares purchased under the share incentive scheme	(3)	(3)
New short-term borrowings	16,250	2,500
Finance lease payments	(441)	-
Net cash generated by financing activities	16,535	22,066
Net (decrease)/increase in cash and cash equivalents during the period	(415)	367
Cash and cash equivalents at the beginning of the period	6,199	5,532
Effect of exchange rate changes on cash balances held in foreign currencies	(15)	48
Cash and cash equivalents at the end of the period	5,769	5,947

Ideagen plc: Group Statement of Changes in Equity for the six months ended 31 October 2019

	Share capital	Share premium	Merger reserve	Share-based payments reserve	Retained earnings	Foreig currenc translati reserv
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 May 2019	2,198	53,948	1,658	1,440	13,597	84
Shares issued under share option scheme	35	650	-	-	-	
Shares issued under share incentive plan	3	41	-	-	-	
Share-based payments	-	-	-	796	-	
Shares purchased under the share incentive scheme	-	-	-	(3)	-	
Transfer on exercise of share options	-	-	-	(352)	352	
Taxation on share-based payments in equity	-	-	-	-	(662)	
Total transactions with owners recognised directly in equity	38	691	-	441	(310)	
Profit for the period	-	-	-	-	335	
Other comprehensive income for the period	-	-	-	-	388	(2
Total comprehensive income for the period	-	-	-	-	723	(2
Balance at 31 October 2019	**2,236**	**54,639**	**1,658**	**1,881**	**14,010**	**82**

Ideagen plc: Group Statement of Changes in Equity for the year ended 30 April 2019

	Share capital	Share premium account	Merger reserve	Share-based payments reserve	Retained earnings	Foreign currency translatio reserve
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 May 2018	2,027	34,257	1,658	1,148	11,194	200
Share placing	141	19,859	-	-	-	-
Share placing issue costs	-	(625)	-	-	-	-
Shares issued under share option schemes	27	370	-	-	-	-
Shares issued under the share incentive scheme	3	87	-	-	-	-
Share-based payments	-	-	-	1,081	-	-
Shares purchased under the share incentive scheme	-	-	-	(3)	-	-
Transfer on exercise of share options	-	-	-	(722)	722	-
Transfer in respect of share incentive scheme	-	-	-	(64)	64	-
Taxation on share-based payments in equity	-	-	-	-	250	-
Equity dividends paid	-	-	-	-	(555)	-
Total transactions with owners recognised directly in equity	171	19,691	-	292	481	-
Profit for the year	-	-	-	-	1,385	-
Other comprehensive income for the year	-	-	-	-	537	641
Total comprehensive income for the year	-	-	-	-	1,922	641
Balance at 30 April 2019	**2,198**	**53,948**	**1,658**	**1,440**	**13,597**	**841**

Ideagen plc: Group Statement of Changes in Equity for the six months ended 31 October 2018

	Share Capital	Share premium	Merger reserve	Share-based payments reserve	Retained earnings	Foreig currenc translati reserv
	£'000	£'000	£'000	£'000	£'000	£'00
Balance at 1 May 2018	2,027	34,257	1,658	1,148	11,194	20
Shares issued under share placing	141	19,859	-	-	-	
Share placing issue costs	-	(626)	-	-	-	
Shares issued under share option scheme	21	134	-	-	-	
Shares issued under share incentive scheme	3	37	-	-	-	
Share-based payments	-	-	-	560	-	
Shares purchased under the share incentive scheme	-	-	-	(3)	-	
Transfer on exercise of share options	-	-	-	(647)	647	
Transfer in respect of share incentive scheme				(8)	8	
Taxation on share-based payments in equity	-	-	-	-	393	
Total transactions with owners recognised directly in equity	165	19,404	-	(98)	1,048	
Loss for the period	-	-	-	-	(557)	
Other comprehensive income for the period	-	-	-	-	233	97
Total comprehensive income for the period	-	-	-	-	(324)	97
Balance at 31 October 2018	**2,192**	**53,661**	**1,658**	**1,050**	**11,918**	**1,17**

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Notes to the interim financial information

1 Basis of information

The interim financial information for the 6 months ended 31 October 2019 and the six months ended 31 October 2018 included in this announcement is unaudited. The financial information for the year ended 30 April 2019 included in this announcement does not constitute the annual report and accounts of the Company for the year ended 30 April 2019 within the meaning of section 434 of the Companies Act 2006. The audited annual report and financial statements of the Company for the year ended 30 April 2019 has been filed with the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain any statement under section 498 (2) or (3) of the Companies Act 2006 and did not include references to any matters to which the auditor drew attention by way of emphasis.

Consistent accounting policies have been applied in the preparation of this information except that the Group has adopted IFRS16 "Leases" with effect from 1 May 2019 which replaces the previous accounting standard IAS17 "Leases". Prior period information has not been restated. Further information on the impact of the adoption of IFRS16 is set out in note 2 below.

2 Adoption of IFRS16 - new accounting standard on leases

The Group has adopted IFRS16 "Leases" with effect from 1 May 2019, replacing IAS17 "Leases". This means that some previously unrecognised operating leases are now recognised in the Statement of financial position as Finance lease liabilities and Right of use assets. Rent payments on some of these leases are no longer treated as a charge within Operating Expenses in the Statement of comprehensive income. Instead a depreciation charge on the Right of use assets and an interest expense on the Finance lease liabilities are now recognised in the Statement of comprehensive income.

On adoption of IFRS16 the Group has used the modified retrospective approach to transition. When applying IFRS16, the Group has used the following practical expedients on transition:

- reliance on the previous identification of a lease under IAS17;
- exclusion of initial direct costs from the measurement of the right of use asset at transition;
- the classification of all long leases which had less than 12 months remaining at transition date as short-term leases;
- the measurement of the value of Right of use assets on transition as an amount equal to the corresponding lease liability adjusted for any prepaid lease payments;
- the use of hindsight in determining the length of the lease.

The Group is applying the accounting policy recognition exemptions set out in paragraph 5 of IFRS16 in respect of short-term leases (leases of less than 12 months) and small value leases. Under IFRS16, short-term leases and small value leases are not recognised in the Statement of financial position and the lease payments are charged as an expense in the Statement of comprehensive income.

The Group has applied judgement in its assessment of the length of certain leases where there are break clauses or options to extend the lease. The conclusions drawn by management in deciding whether lease break clauses or lease extension options are likely to be applied are based on its current assessment of the longer-term growth expectations of the Group and its associated future office space requirements.

As noted above, the Group is applying the modified retrospective approach to transition and has therefore not restated any prior period information. Accordingly, the results for the 6 months ended 31 October 2019 are not directly comparable with those presented in the prior period under the previously applicable accounting standard IAS17 "Leases".

In order to show the impact of IFRS16 and to facilitate a comparison of results with the prior year, a reconciliation is presented below of results for the 6 months ended 31 October 2019 as reported on an IFRS16 basis with the former IAS17 basis.

	H1 2019/20 (IFRS 16 basis)	**IFRS16 impact**	**H1 2019/20 (IAS 17 basis)**
	£'000	**£'000**	**£'000**
Revenue	27,310		27,310
Cost of sales	(2,346)		(2,346)
Gross profit	24,964		24,964
Operating costs	(16,946)	(484)[1]	(17,430)
Profit from operating activities before depreciation, amortisation, share-based payment charges and exceptional items	8,018	(484)	7,534
Depreciation and amortisation	(6,464)	466[2]	(5,998)
Costs of acquiring businesses	(236)		(236)
Restructuring costs	(34)		(34)
Share-based payment charges	(796)		(796)
Profit from operating activities	488	(18)	470
Finance costs	(395)	43[3]	(352)
Profit before taxation	93	25	118

Notes

[1] Reduced lease rental charges on IFRS16 basis

[2] Additional depreciation on right of use assets recognised under IFRS16

[3] Additional Interest cost on finance leases recognised under IFRS16

The adoption of IFRS 16 on 1 May 2019 has impacted certain categories of assets and liabilities in the Group Statement of financial position as set out below.

Extracts from the Group Statement of Financial Position

	30 April 2019 (IAS17 basis)	IFRS16 impact	1 May 2019 (IFRS16 basis)
	£'000	£'000	£'000
Non-current assets			
Right of use assets	-	2,334[1]	2,334
Current assets			
Trade and other receivables	17,547	(76)[2]	17,471
Current liabilities			
Finance lease liabilities	-	(561)	(561)
Non-current liabilities			
Finance lease liabilities	-	(1,697)	(1,697)
Net assets	73,682	-	73,682

[1] The right of use assets recognised under IFRS16 were in respect of leases of office premises.
[2] The impact on Trade and other receivables was in respect of lease prepayments.

There was no overall impact on Net Assets or Equity from the initial adoption of IFRS16 on 1 May 2019.

Finance lease liabilities reconciliation

	£'000
Undiscounted future minimum lease payments under operating leases at 30 April 2019	2,513
Impact of discounting	(141)
Short-term leases expiring before 30 April 2020	(114)
Finance lease liabilities at 1 May 2019	2,258

Future lease payments at 1 May 2019 were discounted at the Group's incremental borrowing rate of 2.75%.

The Group has applied the practical expedient to classify all long lease leases for which the lease term ends within 12 months of the date of adoption of IFRS16 as short-term leases. All other leases of under 12 months length are also classified as short-term leases.

3 Revenue

An analysis of the Group's revenue for the 6 months to 31 October 2019 is given below.

	31 October 2019	31 October 2018
	£'000	£'000
Recurring SaaS/subscription software revenues	9,697	5,472
Recurring support & maintenance	10,575	8,506
Total recurring revenues	20,272	13,978
Software - new licence revenues	3,770	4,497
Professional services	3,049	2,327
Other	219	189

Total revenue	**27,310**	**20,991**

4 Earnings per share information

Basic earnings per share is calculated by dividing the profit for the period attributable to the owners of the Company ('Earnings') by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by dividing Earnings by the weighted-average number of ordinary shares outstanding during the period as adjusted for the effect of all potentially dilutive shares, including share options.

In order to better demonstrate the performance of the Company, adjusted earnings per share calculations have also been presented which take into account items typically adjusted for by users of financial statements. The adjusted earnings and earnings per share information are shown below.

Earnings per share information	**31 October 2019 (IFRS16 basis)** £'000	31 October 2018 (IAS17 basis) £'000
Profit / (loss) for the period (Earnings)	335	(557)
Adjustments:		
Amortisation of acquired intangibles	4,834	3,430
Deferred taxation on amortisation of acquired intangibles	(950)	(689)
Share-based payment charges	796	948
Deferred taxation on share-based payment charges	(46)	35
Costs of acquiring businesses	236	793
Restructuring costs	34	267
Adjusted earnings	5,239	4,227
Weighted average number of shares	220,326,156	206,392,189
Diluted weighted average number of shares	227,107,597	213,894,916
Basic earnings per share	0.15 pence	- 0.27 pence
Diluted earnings per share	0.15 pence	- 0.26 pence
Basic adjusted earnings per share	2.38 pence	2.05 pence
Diluted adjusted earnings per share	2.31 pence	1.98 pence

5 Taxation

Further information on the taxation charge in the Statement of Comprehensive Income is as follows:

	Six months ended 31 October 2019 £'000	Six months ended 31 October 2018 £'000
Income taxation charge	418	448
Deferred tax credit on amortisation of acquisition intangibles	(950)	(689)
Deferred tax on share-based payment charges	(46)	35
Deferred tax charge on development costs	202	128
Other deferred tax charges	134	-
Total deferred income taxation credit	(660)	(526)
Total taxation credit	(242)	(78)

6 Adjusted profit before taxation and adjusted taxation charge

	6 months ended 31 October 2019 (IFRS16 basis) £'000	**6 months ended 31 October 2018 (IAS17 basis) £'000**
Adjusted earnings (note 4)	5,239	4,227

Adjusted taxation charge (below)	754	576
Adjusted profit before taxation	**5,993**	**4,803**
Taxation in the Statement of Comprehensive Income	(242)	(78)
Add back:		
Deferred taxation credit on amortisation of acquisition intangibles (note 5)	950	689
Deferred taxation on share-based payment charges	46	(35)
Adjusted taxation charge	**754**	**576**
Adjusted taxation charge based on adjusted profit before taxation	12.6%	12.0%

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