Ideagen PLC - IDEA Half Yearly Report
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Ideagen PLC

("Ideagen" or the "Group")

Unaudited interim results for the six months ended 31 October 2013

Ideagen PLC (AIM: IDEA), a leading supplier of Information Management software to highly regulated industries, announces its unaudited interim results for the six months ended 31 October 2013.

This announcement represents the Group's ninth consecutive set of results of comparative period revenue, adjusted EBITDA and adjusted EPS growth and demonstrates the ongoing strength of the Group's strategy and business model.

Financial Highlights

- Revenue increased 43% to £3.7m (2012: £2.6m)
    - Underlying organic revenue growth of 16%*
- Adjusted EBITDA** increased by 59% to £1.2m (2012: £0.75m)
- Adjusted PBT*** increased by 58% to £1.1m (2012: £0.7m)
- Adjusted diluted EPS*** increased by 11% to 0.70p (2012: 0.63p)
- Cash generated by operations of £0.02m (2012: £0.65m)
    - Sales weighted towards period end with a resultant increase in receivables to £3.02m (30 April 2013: £1.97m)
- Net cash of £5.3m (30 April 2013: £6.4m; 31 October 2012: £1.2m)
- Net Assets of £12.8m (30 April 2013: £12.3m; 31 October 2012: £6.0m)
- Maiden interim dividend of 0.05 pence declared

*Underlying organic growth is calculated by comparing the results for the current period with the pro-forma results for the comparative period and excludes revenue generated in either period from the cancelled VA Prism contract.
**Before share based payments of £0.14m (2012: £0.03m) and costs of acquiring businesses of £0.07m (2012: £nil).
***Before share based payments of £0.14m (2012: £0.03m), costs of acquiring businesses of £0.07m (2012: £nil) and amortisation of acquisition intangibles of £0.36m (2012: £0.43m).

Operational Highlights

- Successful acquisition of MSS Ltd, a supplier of Accident and Emergency department solutions for the NHS
- Completed full operational integration of Plumtree and MSS into the Group
- Release of dart/KW, an enterprise scale Patient Information Repository and Electronic forms solution for the NHS, with a resultant contract win at Central Manchester NHS Trust
- dart/KW selected by a number of large foundation trusts expected to generate NHS software revenue growth in H2 and beyond
- Entry into the UK Nuclear sector with contract win at National Nuclear Laboratories (NNL)
- Strong account management and customer retention resulting in support and maintenance contract renewal rate increasing to 96%
- Significant increase in new business pipeline for non-healthcare sectors

Post Period End

- Successful acquisition of Pentana Ltd, a supplier of audit and risk management solutions, adding an additional 350 customers, £1.4m of recurring revenues and an entry point to the Financial Services Sector

David Hornsby, CEO of Ideagen, commented: "We are pleased to announce another set of interim results that are in line with the board's expectations. We have made further progress both strategically and financially during the first half of this year having delivered strong revenue and operating profit growth whilst making considerable investment in our product, sales and technical resources. Importantly, the Group is generating organic growth and has a strong pipeline of new business opportunities for the second half. This together with the acquisitions of MSS and Pentana, which will both contribute to revenue and operating profits in the second half, underpin our confidence in the outlook for the rest of the year."

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Chief Executive's Statement

I am pleased to announce our unaudited results for the six months ended 31 October 2013. The period saw further transformation of the Group through continued organic revenue and profit growth and a further acquisition. The acquisition of MSS Management Systems Services Limited ("MSS") has provided the Group with over 10 new Acute Trusts and a strategic software product: Patient First, an A&E department solution.

The Group has generated strong organic growth driven by a significant increase in revenues generated within the UK Healthcare sector. Prior to the acquisition of Plumtree in December 2012 the Directors had identified the NHS as a growth opportunity for the Group. To maximise the opportunity we have released a new product dart/KW, an enterprise scale Patient Information solution and transferred expert sales and technical resources from our commercial group into the NHS team. This combined with Plumtree's NHS heritage and the MSS acquisition has provided a compelling proposition resulting in sector organic growth of 49%.

The Group has now recruited additional sales resources to ensure that we continue our growth within the commercial sector and has in the first half won a number of contracts with highly regulated organisations including National Nuclear Laboratories, the Prudential and ACCA.

The Group continues to benefit from robust recurring revenues and has also invested in additional resources to manage the customer base resulting in a maintenance and support renewal rate of 96%. Recurring revenues now represent 54% of our software and services revenue and cover 86% of the fixed cost base.

A number of new contracts were closed in September and October which has resulted in a significant increase in receivables at period end. This together with very strong cash generated from operations in the second half of the Group's last financial year (126% of adjusted EBITDA) meant lower cash generated in the first half of this year. Given the increase in receivables detailed above, the Group is, however, expecting strong cash generation in the third quarter of the current financial year.

The Group's balance sheet remains strong with cash balances of £5.3m at period end. This together with the expected increase in operating cashflow in the second half ensures that we are well placed to make additional acquisitions in the future.

Post period end, the Group completed the acquisition of Pentana Ltd (Pentana), a supplier of internal audit and risk management software in November 2013. Pentana has annual revenues of approximately £2.4m of which £1.4m is recurring, and in excess of 350 customers comprising accounting firms in addition to the internal risk and audit departments of highly regulated organisations.

Growth Strategy and Sectors

A key focus for the Group is the supply of Information Management solutions that address the Governance, Risk and Compliance requirements of highly regulated organisations. For our customers, GRC represents a key corporate initiative for improving governance through more effective compliance and a clearer understanding of the impact of risk on business performance. The Group's expertise is developing and selling software tools that enable our customers to identify, assess and prioritise risk and to manage unstructured information to comply with regulations and deliver operational benefits.

The Directors believe that the foundation of any robust GRC system is the effective management of unstructured and semi-structured information such as documents, electronic forms and content, email, video and scanned images which accounts for approximately 80 per cent of all data within an organisation.

The management of such information has been a core competence of the Group for a number of years and, following the acquisition of Pentana, we can now combine audit and risk capability with formal document control and business process management in the areas of competency, incident reporting and corrective action planning. This provides the Group with a broader integrated GRC proposition which we believe will be of interest to our enlarged customer base.

The acquisition of Pentana also provides the Group with access to the accountancy industry and the growing GRC outsource market. As regulatory pressures grow, organisations are increasingly outsourcing internal audit and risk management to accounting firms.

Currently eight out of the top 10 UK accountancy firms use the Group's products to support their clients' risk and audit requirements and the Directors expect that, as the market grows, the use of the Group's products will increase accordingly.

The Directors believe that the UK healthcare market represents a significant growth opportunity for the Group following the dismantling of the NHS National Programme for IT. Many of the current IT drivers within the NHS are focused on improving healthcare governance through the implementation of more robust Information Management systems with the objective of improving service levels and patient care.

The Group is therefore developing a robust and scalable healthcare proposition which is aligned closely with the Government's "2018 Paperless NHS" strategy. This strategy is supported by a funded programme aimed at improving information governance and reducing patient risk whilst delivering cost savings through the implementation of a digital patient record.

The Directors estimate that approximately only 20% of the 192 NHS Trusts in the United Kingdom have implemented a trust-wide Patient Information Repository and therefore believe that there is a significant market opportunity over the coming years. To date the Group has supplied eight NHS Trusts in England and Scotland with a trust-wide solution to integrate patient information across departments. Typically these solutions represent a major long term investment for a Trust and represent a significant increase in transaction value for the Group.

The Group also has the opportunity to supply departmental NHS solutions such as Laboratory ISO Compliance, Infection Control, Accident and Emergency and Order Communications as additional 'point' solutions often integrated into the central repository. The Group has in excess of 100 departmental solutions deployed within the NHS. The Directors also expect that the Group's Risk Management products will be attractive to the NHS as it attempts to reduce its reliance on manually intensive risk management processes supported primarily by paper forms and spreadsheets.

Staffing and Infrastructure

The Group has implemented a fully integrated structure with functions covering Sales and Marketing, Customer Services and Support, Research and Development and Finance and Administration represented on the executive management team.

Following the acquisition of Pentana post period end, the Group has 98 employees across the following functions : Sales and Marketing - 21 ,Customer Services and Support - 37, Research and Development - 25, Finance and Administration - 10, Board - 5. Furthermore, it is envisaged that headcount will increase over the coming year to generate and support future growth.

The enlarged Group now has strong GRC reference points in a number of sectors including Healthcare, Banking and Finance, Complex Manufacturing and Aerospace & Defence and operates out of six locations: Welwyn Garden City, Matlock, Bristol, Sittingbourne, Nottingham and Schaumburg (USA). The Group has implemented common IT systems across these locations covering Finance, Customer Relationship Management, Email and Employee Intranet.

Outlook

The successful acquisition and integration of MSS during the period, together with the acquisition of Pentana post period end, highlights our capability to continue to consolidate the fragmented industry in which we operate. Furthermore, our successful entry into and immediate growth within the UK healthcare sector is particularly exciting and provides the Group with a significant market opportunity in which to grow profitably over the near to medium term. The Group has an increasing pipeline of new business sales which combined with our growing recurring revenues provides validation that we are pursuing a sound business strategy that underpins our confidence in the outlook for the rest of the year.

David Hornsby - Chief Executive

Financial Review

Revenue for the six months ended 31 October 2013 increased by 43% to £3.7m (2012: £2.6m). Within this, underlying organic revenue growth was 16% based on a comparison of revenue in the current period with pro-forma revenue for the comparative period adjusted for the Plumtree and MSS acquisitions and excluding revenue generated in either period from the VA Prism contract.

Adjusted EBITDA increased by 59% to £1.2m (2012: £0.75m). Close control of operating costs together with cost reductions from the integration of acquisitions have benefited the adjusted EBITDA margin which increased to 32% (2012: 29%).

Amortisation of acquisition intangibles of £0.36m (2012: £0.43m) represents the majority of the total depreciation and amortisation charge of £0.47m (2012: £0.48), the reduction in 2013 being due to the impairment of an intangible at the end of the last financial year. The increase in share-based payment charges was due to the share options granted in January 2013 which were at higher exercise prices than previous grants of share options.

The adjusted group tax charge excluding the deferred tax credit of £0.07m (2012: £0.11m) on amortisation of acquisition intangibles was £0.20m (2012: £0.17m) which represents 19% (2012: 25%) of adjusted PBT of £1.09m (2012: £0.69m), benefiting from increased use of brought forward tax losses.

As a result of the above, adjusted diluted earnings per share increased by 11% to 0.70p (2012: 0.63p).

The Group's financial position has continued to strengthen with net assets increasing to £12.8m at 31 October 2013 (30 April 2013: £12.3m; 31 October 2012: £6.0m). Intangible assets increased to £8.6m (30 April 2013: £7.7m; 31 October 2012: £7.2m) and net current assets at 31 October 2013 were £4.73m (30 April 2013: £4.95m; 31 October 2012: net current liabilities of £0.35m) following the acquisition of MSS in July 2013.

Cash balances at 31 October 2013 were £5.3m (30 April 2013: £6.4m; 31 October 2012: £1.2m) following the acquisition of MSS in July 2013 for initial net cash consideration of £0.59m. Cash generated from operations for the six months to 31 October 2013 amounted to £0.02m (2012: £0.65m), primarily due to a weighting of sales towards the period end resulting in an increase in receivables at 31 October 2013 to £3.02m (30 April 2013: £1.97m; 31 October 2012: £0.96m). In addition cash generated from operations in the second half of the last financial year was particularly high representing 126% of adjusted EBITDA in that period. The Group is expecting strong operating cash generation in the third quarter of the current financial year.

Event after the end of the reporting period

On 19 November 2013, Ideagen plc acquired the whole of the issued share capital of Pentana Limited ("Pentana"), a company domiciled in England, together with its wholly owned subsidiary Pentana Inc., a company domiciled in the United States of America.

The initial cash consideration at completion was £3.425m. Pentana had approximately £1.175million of cash reserves at completion, giving initial net cash consideration of £2.25m. Additional cash consideration of up to £0.8m will become payable should certain recurring revenue targets be met over the 12 months following completion.

Dividend

The Directors intend to pay a maiden interim dividend of 0.05 pence per share on 6 March 2014 to shareholders on the register on 14 February 2014. The corresponding ex-dividend date is 12 February 2014.

Graeme Spenceley - Finance Director

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Consolidated Statement of Comprehensive Income for the six months ended 31 October 2013

	Six months ended 31 October 2013 £	**Six months ended 31 October 2012 £**
Revenue	3,704,459	2,581,554
Cost of sales	(589,312)	(182,743)
Gross profit	3,115,147	2,398,811
Operating costs	(1,923,335)	(1,647,593)
Profit from operating activities before depreciation, amortisation, share-based payment charges and exceptional items	1,191,812	751,218
Depreciation and amortisation	(468,819)	(480,218)

Share-based payment charges	(142,500)	(31,000)
Costs of acquiring businesses	(71,675)	-
Profit from operating activities	508,818	240,000
Finance income / (costs)	6,287	(9,597)
Profit before taxation	515,105	230,403
Taxation expense	(136,970)	(58,784)
Profit for the period	378,135	171,619
Other comprehensive income		
Exchange differences on translating foreign operation	(6,484)	(10,246)
Total comprehensive income for the period attributable to the owners of the parent company	371,651	161,373
Earnings per share	**pence**	**pence**
Basic	0.31	0.22
Diluted	0.30	0.21

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Consolidated Statement of Financial Position at 31 October 2013

	31 October 2013	30 April 2013	31 October 2012
	£	£	£
Assets and liabilities			
Non-current assets			
Intangible assets	8,616,004	7,716,171	7,221,346
Property, plant and equipment	176,411	199,358	85,018
Deferred tax asset	186,000	206,000	200,000
	8,978,415	8,121,529	7,506,364
Current assets			
Trade and other receivables	3,020,321	1,972,469	961,034
Cash and cash equivalents	5,272,532	6,372,243	1,225,291
	8,292,853	8,344,712	2,186,325
Current liabilities			
Trade and other payables	1,494,271	1,636,073	618,988
Borrowings	-	-	12,839
Other financial liabilities	-	-	114,000
Current tax liabilities	430,351	311,180	259,787
Deferred revenue	1,565,235	1,345,364	907,416
Other liabilities	75,000	100,000	620,000
	3,564,857	3,392,617	2,533,030

Non-current liabilities			
Deferred tax liabilities	911,090	796,204	1,081,680
Other financial liabilities	-	-	100,000
	911,090	796,204	1,181,680
Net assets	12,795,321	12,277,420	5,977,979

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Consolidated Statement of Financial Position at 31 October 2013 (continued)

	31 October 2013	**30 April 2013**	**31 October 2012**
	£	**£**	**£**
Equity			
Issued share capital	1,218,907	1,217,407	778,816
Share premium	6,869,640	6,867,390	1,408,443
Merger reserve	1,167,284	1,167,284	1,020,000
Share-based payments reserve	453,100	312,520	168,080
Retained earnings	3,086,203	2,706,148	924,966
Foreign currency translation reserve	187	6,671	(2,326)
Deferred equity consideration reserve	-	-	1,680,000
Equity attributable to owners of the parent	12,795,321	12,277,420	5,977,979

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Consolidated Statement of Cash Flows for the six months ended 31 October 2013

	Six months ended 31 October 2013	**Six months ended 31 October 2012**
	£	£
Cash flows from operating activities		
Profit for the period	378,135	171,619
Depreciation of property, plant and equipment	53,294	14,588
Amortisation of intangible non-current assets	415,525	465,630
Costs of acquiring businesses in profit or loss	71,675	-
Share-based payment charge	142,500	31,000
Finance (income) / costs recognised in profit or loss	(6,287)	9,597
Tax charge recognised in profit or loss	136,970	58,784
Net foreign exchange loss in profit or loss	8,593	-
(Increase)/decrease in trade and other receivables	(1,051,203)	206,049
(Decrease) in trade and other payables	(204,858)	(161,864)
Increase/(decrease) in deferred revenue	73,971	(145,829)
Cash generated by operations	18,315	649,574
Interest received/(paid)	6,677	(2,868)
Corporation tax paid	(76,697)	(27,850)
AIM flotation costs paid	-	(247,353)
Acquisition costs paid	(71,675)	(3,545)

Net cash (used)/generated by operating activities	(123,380)	367,958
Cash flows from investing activities		
Payments of deferred consideration on business combinations	(106,167)	(371,590)
Net cash outflow on acquisition of subsidiaries	(588,966)	-
Payments for intangible assets	(238,000)	(153,916)
Payments for property, plant and equipment	(30,456)	(19,119)
Net cash used by investing activities	(963,589)	(544,625)
Cash flows from financing activities		
Repayment of borrowings	-	(93,813)
Proceeds from issue of shares under share option scheme	3,750	-
Net cash generated/(used) by financing activities	3,750	(93,813)
Net decrease in cash and cash equivalents during the period	(1,083,219)	(270,480)
Cash and cash equivalents at the beginning of the period	6,372,243	1,495,771
Effect of exchange rate changes on cash balances held in foreign currencies	(16,492)	-
Cash and cash equivalents at the end of the period	5,272,532	1,225,291

Ideagen plc: Consolidated Statements of Changes in Equity

	Share capital	**Share premium**	**Merger Reserve**	**Share-based payments reserve**	**Retained earnings**	**Foreign currency translation reserve**	**Deferred equity consideration reserve**	**Total attributable to owners of the parent**
	£	**£**	**£**	**£**	**£**	**£**	**£**	**£**
For the six months to 31 October 2013								
At 1 May 2013	1,217,407	6,867,390	1,167,284	312,520	2,706,148	6,671	-	12,277,420
Profit for the period	-	-	-	-	378,135	-	-	378,135
Share-based payments	-	-	-	142,500	-	-	-	142,500
Shares issued under share option scheme	1,500	2,250	-	-	-	-	-	3,750
Transfer on exercise of share options	-	-	-	(1,920)	1,920	-	-	-
Other comprehensive income for the period	-	-	-	-	-	(6,484)	-	(6,484)
At 31 October 2013	1,218,907	6,869,640	1,167,284	453,100	3,086,203	187	-	12,795,321
For the six months to 31 October 2012								
At 1 May 2012	778,816	1,408,443	1,020,000	137,080	753,347	7,920	1,680,000	5,785,606
Profit for the period	-	-	-	-	171,619	-	-	171,619
Share-based payments	-	-	-	31,000	-	-	-	31,000
Other comprehensive income for the period	-	-	-	-	-	(10,246)	-	(10,246)
At 31 October 2012	778,816	1,408,443	1,020,000	168,080	924,966	(2,326)	1,680,000	5,977,979

Ideagen plc: Consolidated Statement of Changes in Equity for the year ended 30 April 2013

	Share capital	**Share premium**	**Merger Reserve**	**Share-based payments**	**Retained earnings**	**Foreign currency**	**Deferred equity**	**Total attributable**

				reserve		translation reserve	consideration reserve	to owners of the parent
	£	£	£	£	£	£	£	£
At 1 May 2012	778,816	1,408,443	1,020,000	137,080	753,347	7,920	1,680,000	5,785,606
Share placing	315,789	5,684,211	-	-	-	-	-	6,000,000
Share placing issue costs	-	(228,264)	-	-	-	-	-	(228,264)
Shares issued as part consideration on a business combination	45,000	-	855,000	-	-	-	-	900,000
Shares issued to satisfy contingent consideration on business combinations	75,802	-	710,968	-	-	-	(343,903)	442,867
Shares issued under share option scheme	2,000	3,000	-	-	-	-	-	5,000
Loss for the year	-	-	-	-	(804,540)	-	-	(804,540)
Other comprehensive income for the year	-	-	-	-	-	(1,249)	-	(1,249)
Share-based payments	-	-	-	178,000	-	-	-	178,000
Transfer on exercise of share options	-	-	-	(2,560)	2,560	-	-	-
Realisation of merger reserve on impairment of intangibles	-	-	(1,418,684)	-	1,418,684	-	-	-
Reduction in deferred equity consideration reserve	-	-	-	-	1,336,097	-	(1,336,097)	-
At 30 April 2013	**1,217,407**	**6,867,390**	**1,167,284**	**312,520**	**2,706,148**	**6,671**	**-**	**12,277,420**

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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 2013 and the six months ended 31 October 2012 included in this announcement is unaudited. The financial information for the year ended 30 April 2013 included in this announcement does not constitute the annual report and accounts of the Company for the year ended 30 April 2013 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 2013 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 unless otherwise stated below.

2 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	Six months ended 31 October 2013	Six months ended 31 October 2012
	£	£
Profit for the period (Earnings)	378,135	171,619
Adjustments:		
Share-based payment charges	142,500	31,000
Costs of acquiring businesses	71,675	-
Amortisation of acquired intangibles	364,814	432,555
Deferred taxation on amortisation of acquired intangibles	(67,675)	(114,448)

Adjusted earnings	889,449	520,726
Adjusted tax charge	204,645	173,232
Adjusted profit before taxation	1,094,094	693,958
Weighted average number of shares	121,757,776	77,881,558
Diluted weighted average number of shares	126,895,594	82,878,296
Basic earnings per share	0.31 pence	0.22 pence
Diluted earnings per share	0.30 pence	0.21 pence
Basic adjusted earnings per share	0.73 pence	0.67 pence
Diluted adjusted earnings per share	0.70 pence	0.63 pence

3 Event after the end of the reporting period: Acquisition of a business

On 19 November 2013, Ideagen plc acquired the whole of the issued share capital of Pentana Limited ("Pentana"), a company domiciled in England, together with its wholly owned subsidiary Pentana Inc., a company domiciled in the United States of America. The acquisition of Pentana is expected to enhance the group's existing business through the addition of strong IP in the area of Governance, Risk and Compliance ("GRC") and provides the group with a strong entry point into the financial services sector and the outsourced risk and compliance market.

The initial cash consideration at completion was £3.425million. Pentana had approximately £1.175million of cash reserves at completion, so the initial net cash consideration was £2.25million. Additional cash consideration of up to £0.8million will become payable should certain recurring revenue targets be met over the 12 months following completion.

Some aspects of the initial accounting for the acquisition and in particular an assessment of the fair value of the intangible assets acquired in the business combination have not yet been completed and accordingly information has not been presented on assets and liabilities assumed at the date of acquisition.