



Ideagen PLC - IDEA Acquisition of Morgan Kai Group Ltd

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Ideagen PLC

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

Acquisition of Morgan Kai Group Ltd

Ideagen PLC (AIM: IDEA), a leading supplier of Information Management software to highly regulated industries, is pleased to announce the acquisition of the entire issued share capital of Morgan Kai Group Ltd ("Morgan Kai") for a net consideration of £20.5m (the "Acquisition").

Highlights

- Morgan Kai is a profitable and growing software company that has developed a leading Internal Audit Management product 'MKinsight';
- MKinsight is used by over 370 customers across a number of highly regulated vertical markets including public sector, banking and finance, engineering, healthcare and energy;
- With operations in Leeds and Chicago, Morgan Kai currently employs 28 people and provides further infrastructure and customers to support the Group's global growth objective;
- Over 77% of customers are international with 28% based in the USA;
- Customers include the UK's National Audit Office, the Federal Reserve, Investec, the New York Stock Exchange, Shell, Bombardier and Blue Cross Blue Shield;
- The addition of MKinsight to the Group doubles the existing Ideagen Internal Audit business providing scale, enhanced technology and a strong competitive position;
- On a current run rate Morgan Kai is generating approximately £5.3m in revenues, current run rate recurring revenue is £3.2m with an adjusted run rate EBITDA* of £1.7m; and
- The Acquisition is expected to be immediately earnings enhancing and is expected to contribute £2.0m additional EBITDA for the year ended 30 April 2020 following the realisation of £0.3m synergies.

Consideration for the Acquisition

The total net consideration payable is £20.5m in cash being £22.4m gross consideration payable by Ideagen less cash balances in Morgan Kai of approximately £1.9m. The consideration will be funded from the proceeds of the Group's recent share placing and from existing cash reserves and will be paid in full on completion. Morgan Kai was the "Near Term Target" referred to in the Company's announcement of 13 September 2018.

David Hornsby, Executive Chairman of Ideagen, commented:

"Morgan Kai is an extremely valuable addition to the Group and is in line with our strategy of acquiring GRC business that have strong IP and growing recurring revenues. Internal Audit has represented a core market for Ideagen since the acquisition of Pentana in 2013, the addition of MKinsight to our product portfolio will enhance our scale and capability and provide a strong platform for continued growth globally."

Further information with regard to the internal audit management market and Morgan Kai is set out below.

The information communicated in this announcement includes inside information for the purposes of Article 7 of Regulation 596/2014

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Audit Management Market

Internal Auditors independently and objectively evaluate, analyse and assess the effectiveness of an organisation's system of internal control, governance processes and risk management capability. The auditors provide assurance, insight and recommendations on operational improvements to the board of directors, senior management and business process owners. Auditors do this through both auditing and consulting activities. The audit management solution market automates internal audit operations, such as audit planning, scheduling, work paper management, time and expense management, reporting, and issue management.

Ideagen have operated in the internal audit market since the acquisition of Pentana in 2013, since then the Group has doubled the revenues winning important customers such as Dun and Bradstreet, Bank of New York, Commerzbank, Sainsbury's Bank and Carnival Cruises. The Board estimates that the Annual Market Size for Internal Audit software is approximately £200m.

Information on Morgan Kai Group Ltd.

Founded originally in 1999 as an Audit Consulting Business, Morgan Kai has developed a leading Audit Management application MKinsight. Morgan Kai is a UK business based in Leeds with a subsidiary company Morgan Kai Group Inc which is based in Chicago. Morgan Kai employs 28 staff who will remain with the business. The current CEO and primary shareholder, Paul Gascoigne and his co-director Tanya Gascoigne will leave the business after a 3 month handover period.

Morgan Kai have successfully developed a number of vertical markets including Local Government, National Audit Offices, Engineering and Manufacturing, Banking and Finance, Oil and Gas, Energy and Healthcare.

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The customer base is global in nature with strong presence in USA (28%), and UK (23%) with the remaining 49% spread across Europe, Asia and Africa.

The combination of Pentana and Morgan Kai will provide a strong platform to continue the growth in this core market providing enhanced scale, market coverage and technical capability. The combined business will generate approximately £10m in revenue in the year to 30 April 2020 and represent the clear number 2 vendor in the Internal Audit Market which the board believe will provide an opportunity to further increase market share. Moreover, synergies of approximately £0.3m have been identified, these relate predominantly to IT infrastructure costs and marketing spend and will be realised within the year to April 2020.

In the year ended 31 December 2017 Morgan Kai Group Ltd generated PBT of £0.9m and had net assets of £0.4m at 31 December 2017.

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