2015

Interim Report

intercede

Intercede Group plc

Digital trust people | devices | apps

INTERCEDE GROUP plc

Interim Results for the Six Months Ended 30 September 2015

Chairman's Statement

Introduction

Intercede has enjoyed a successful first half of the current financial year. We have grown revenues and maintained a strong financial position, whilst also making good progress in the newer markets where we believe there is significant scope for our latest suite of products to secure a leading position.

The Group's short to medium term financial target is to deliver accelerated revenue growth by investing in people and resources to take advantage of the opportunities provided by the impact of smart phones and global cybersecurity concerns. This strategic investment has been funded organically to date.

Financial Results

As previously stated, Intercede has achieved strong revenue growth during the first half of the financial year. This is in line with market expectations and reflects continued progress with existing customers and a number of new contract wins.

Revenues in the period totaled £5,547,000, a 37% increase compared to £4,045,000 in the corresponding period last year. Existing and new products have gained traction in target markets with significant revenues expected in future periods.

Planned investment in additional resources as outlined above has resulted in a 16% increase in operating expenses from £4,868,000 to £5,670,000. The combined effect of increased revenues and planned investment has resulted in a substantial reduction in operating losses from £1,119,000 to £447,000.

Staff costs continue to represent the main area of expense, representing 78% of total operating costs (2014: 77%). Intercede had 125 employees and contractors as at 30 September 2015 (30 September 2014: 116). The average number of employees and contractors during the period increased from 110 to 121 year on year.

A £912,000 taxation credit for the period (2014: £383,000 taxation credit) primarily reflects cash received following the 2015 Research & Development ("R&D") claim as a result of the investment activities outlined above. The Group is a beneficiary of the UK Government's efforts to encourage innovation by allowing 125% of qualifying R&D expenditure to be offset against taxable profits and allowing 14.5% (2014: 11.0%) of the lower of R&D losses or taxable losses to be paid as tax credits.

A profit for the period of £480,000 (2014: loss of £705,000) resulted in a basic earnings per share of 1.0p and a fully diluted earnings per share of 0.9p (2014: basic and fully diluted loss per share 1.4p).

The Group has no debt and continues to fund its growth through existing cash resources. Cash balances as at 30 September 2015 totaled £5,767,000 compared to £5,895,000 as at 31 March 2015 and £6,301,000 as at 30 September 2014.

Operational Highlights

This has been a very busy period in terms of product development and customer engagement. The following additional contract wins were added to the order book during the period, all of which will contribute to revenues in the current financial year and beyond:

- Enterprise-wide contract with one of the largest US healthcare corporations.
- Mobile Derived Credential solution sold to a major US Federal Agency.
- New agreement with a US West Coast bank.
- First sale following the announcement of the Partner Agreement with Citrix on 13 May 2015.

Strategy and Outlook

Intercede's strategy is 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. For example, in the next few weeks Intercede will announce details of a new business unit to be headquartered in California. This new team will focus on creating disruptive opportunities by exploiting the value of digital trust in both the consumer and general enterprise markets.

Intercede has already developed much of the required core technology, such as the 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 doing so there is the potential for a step change in revenue and strategic value. To deliver this Intercede has streamlined its development processes, enlarged its sales team, expanded its geographical footprint and invested in new business development functions.

We believe the upside of success 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. In the longer term it has become clear that Intercede is exceptionally well placed to capitalise on the market for digital trust services.

Richard Parris
Chairman & Chief Executive
3 November 2015

Consolidated Statement of Comprehensive Income

For the period ended 30 September 2015

	6 months ended 30 September 2015 £'000	6 months ended 30 September 2014 £'000	Year ended 31 March 2015 £'000
Continuing operations			
Revenue	**5,547**	4,045	8,819
Cost of sales	**(324)**	(296)	(344)
Gross profit	**5,223**	3,749	8,475
Operating expenses	**(5,670)**	(4,868)	(10,215)
Operating loss	**(447)**	(1,119)	(1,740)
Finance income	**15**	31	68
Loss before tax	**(432)**	(1,088)	(1,672)
Taxation	**912**	383	363
Profit/(loss) for the period	**480**	(705)	(1,309)
Total comprehensive income/(expense) attributable to owners of the parent company	**480**	(705)	(1,309)
Earnings/(loss) per share (pence)			
- basic	**1.0p**	(1.4)p	(2.7)p
- diluted	**0.9p**	(1.4)p	(2.7)p

Consolidated Balance Sheet

As at 30 September 2015

	As at 30 September 2015 £'000	As at 30 September 2014 £'000	As at 31 March 2015 £'000
Non-current assets			
Property, plant and equipment	**835**	786	853
Current assets			
Trade and other receivables	**1,812**	1,744	1,074
Cash and cash equivalents	**5,767**	6,301	5,895
	7,579	8,045	6,969
Total assets	**8,414**	8,831	7,822
Equity			
Share capital	**487**	487	487
Share premium account	**232**	232	232
Other reserves	**1,508**	1,508	1,508
Retained earnings	**2,453**	3,010	2,257
Total equity attributable to owners of the parent company	**4,680**	5,237	4,484
Non-current liabilities			
Deferred revenue	**210**	48	229
Current liabilities			
Trade and other payables	**1,109**	1,396	1,126
Deferred revenue	**2,415**	2,150	1,983
	3,524	3,546	3,109
Total liabilities	**3,734**	3,594	3,338
Total equity and liabilities	**8,414**	8,831	7,822

Consolidated Statement of Changes in Equity

For the period ended 30 September 2015

	Share capital £'000	Share premium £'000	Other reserves £'000	Retained earnings £'000	Total £'000
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	**487**	**232**	**1,508**	**2,453**	**4,680**
At 1 April 2014	487	232	1,508	3,972	6,199
Purchase of own shares	–	–	–	(379)	(379)
Employee share option plan charge	–	–	–	62	62
Employee share incentive plan charge	–	–	–	60	60
Loss for the period and total comprehensive expense	–	–	–	(705)	(705)
At 30 September 2014	487	232	1,508	3,010	5,237
At 1 April 2014	487	232	1,508	3,972	6,199
Purchase of own shares	–	–	–	(688)	(688)
Employee share option plan charge	–	–	–	118	118
Employee share incentive plan charge	–	–	–	164	164
Loss for the year and total comprehensive expense	–	–	–	(1,309)	(1,309)
At 31 March 2015	487	232	1,508	2,257	4,484

Consolidated Cash Flow Statement

For the period ended 30 September 2015

	6 months ended 30 September 2015 £'000	6 months ended 30 September 2014 £'000	Year ended 31 March 2015 £'000
Cash flows from operating activities			
Operating loss	**(447)**	(1,119)	(1,740)
Depreciation	**89**	72	153
Employee share option plan charge	**57**	62	118
Employee share incentive plan charge	**147**	60	164
(Increase)/decrease in trade and other receivables	**(742)**	41	709
Decrease in trade and other payables	**(17)**	(323)	(593)
Increase in deferred revenue	**413**	327	341
Interest received	**19**	31	70
Cash used in operations	**(481)**	(849)	(778)
Taxation	**912**	383	363
Net cash generated from/(used in) operating activities	**431**	(466)	(415)
Investing activities			
Purchases of property, plant and equipment	**(71)**	(101)	(249)
Cash used in investing activities	**(71)**	(101)	(249)
Financing activities			
Purchase of own shares	**(488)**	(379)	(688)
Cash used in financing activities	**(488)**	(379)	(688)
Net decrease in cash and cash equivalents	**(128)**	(946)	(1,352)
Cash and cash equivalents at the beginning of the period	**5,895**	7,247	7,247
Cash and cash equivalents at the end of the period	**5,767**	6,301	5,895

Notes to the Consolidated Accounts

For the period ended 30 September 2015

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 2015.

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 2015 have been delivered to the Registrar of Companies. The Auditors' Report on those accounts was unqualified and did not contain any statement under Section 498 (2) or (3) of the Companies Act 2006.

The Interim Report will be mailed to shareholders within the next few weeks and copies will be available on the website (www.intercede.com) and at the registered office: Intercede Group plc, Lutterworth Hall, St Mary's Road, Lutterworth, Leicestershire, LE17 4PS.

2. Revenue

All of the Group's revenue, operating profits and net assets originate from operations in the UK. The Directors consider that the activities of the Group constitute a single business segment.

The split of revenue by geographical destination of the end customer can be analysed as follows:

	6 months ended 30 September 2015 £'000	6 months ended 30 September 2014 £'000	Year ended 31 March 2015 £'000
UK	**313**	746	1,301
Rest of Europe	**570**	815	1,848
North America	**4,410**	1,628	4,493
Rest of World	**254**	856	1,177
	5,547	4,045	8,819

3. Taxation

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

4. Earnings/(loss) per share

The calculations of the earnings/(loss) per ordinary share are based on the profit/(loss) 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 2015 £'000	6 months ended 30 September 2014 £'000	Year ended 31 March 2015 £'000
Profit/(loss) for the period	**480**	(705)	(1,309)
	Number	Number	Number
Weighted average number of shares			
– basic	**48,426,005**	48,571,005	48,526,457
– diluted	**50,751,688**	48,571,005	48,526,457
	Pence	Pence	Pence
Earnings/(Loss) per share			
– basic	**1.0p**	(1.4)p	(2.7)p
– diluted	**0.9p**	(1.4)p	(2.7)p

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 2015 Number	6 months ended 30 September 2014 Number	Year ended 31 March 2015 Number
Issued ordinary shares at start of period	**48,735,005**	48,735,005	48,735,005
Effect of purchase of treasury shares	**(309,000)**	(164,000)	(208,548)
Weighted average number of shares – basic	**48,426,005**	48,571,005	48,526,457
Add back effect of purchase of treasury shares	**309,000**	N/A	N/A
Effect of share options in issue	**2,016,683**	N/A	N/A
Weighted average number of shares – diluted	**50,751,688**	48,571,005	48,526,457

5. Dividend

The Directors do not recommend the payment of a dividend.

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