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SOPHEON PLC

("Sopheon", the "Company" or the "Group")

INTERIM RESULTS FOR THE 6 MONTHS TO 30 JUNE 2023

Sopheon, the InnovationOps software company, announces its unaudited half-yearly financial report for the six months ended 30 June 2023 ("H1" or "the Period") together with a business review and outlook statement for the second half of the year.

HIGHLIGHTS:

- Revenue was $17.0m compared to $15.7m in H1 2022, reflecting a strong recurring revenue performance.
- Five new enterprise customers were signed in the period for our flagship Accolade® software. Sales team activity also included orders for Acclaim™ Projects and Acclaim Ideas, acquired with ROI Blueprints and Solverboard respectively. Our online sales channel for Acclaim Ideas and Acclaim Products, introduced in September 2022, has shown continued growth with signup activity rising from a cold start to benchmark run rates. We will continue to refine product and marketing methodologies to achieve conversion.
- SaaS ARR[1] of $15.2m at 30 June (H1 2022: $9.3m) representing an impressive 63% year over year growth. All new customers signed in the period were SaaS based.
- Total ARR including maintenance was $25.9m at 30 June (H1 2022: $21.9m) representing 18% year-on-year growth. Gross ARR retention for the Period was almost 99% (H1 2022: 98%).
- Full year 2023 revenue visibility[2] stands at $32.4m compared to $34.1m at this time last year. Last year's comparative included over $4m from a substantial perpetual license order from the US Navy, received in July 2022. The current sales pipeline for the balance of 2023 includes opportunities for two significant perpetual extension orders from existing military customers, as well as many SaaS opportunities from private sector prospects and existing customers.
- Adjusted EBITDA[3] of $2.9m (H1 2022: $2.9m) reflects continued investment in product and commercial initiatives as per operating plans. Net cash at 30 June was $22.4m (H1 2022: $23.5m) and the Group remains debt free.
- In February 2023, Barney Kent, former Chief Operating Officer of Ideagen plc was appointed to the board as a Non-Executive Director, underlining the Company's commitment to continued board independence, organic growth and M&A activities.
- Several product releases were made during the Period, with AI capabilities now introduced to two of our offerings. As noted above, sales were booked for Acclaim Projects and Acclaim Ideas alongside Accolade, underpinning Sopheon's strategy to be the leading software vendor focused on operationalizing the business of innovation, commonly referred to as "InnovationOps."
- Post Period end, in July 2023, we acquired Prodex, Sopheon's reseller for Australia, New Zealand and South-East Asia, for initial consideration of $0.7m. Sopheon's third acquisition since 2021 brings us a truly global footprint, with a strong platform to advance customer acquisition and growth in the Asia Pacific region.

Sopheon's Executive Chairman, Andy Michuda said: *"Sopheon continues to deliver on its key growth and transformation objectives, demonstrated in particular by significant and sustained increases in SaaS ARR, supported by continued high retention performance. In parallel we have delivered substantial investment in growth initiatives and M&A that expand our product offering, geographical footprint and market opportunity, while maintaining cashflow discipline and EBITDA performance. Our strong balance sheet continues to support our ability to execute with confidence. We expect the impact of increased investments in both marketing and product to contribute to a stronger sales pipeline in the second half of the year and beyond, in support of our growth objectives."*

FOR FURTHER INFORMATION CONTACT:

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About Sopheon. Sopheon (LSE: SPE) empowers organizations to change the world while achieving exceptional long-term revenue growth and profitability. By operationalizing the entire innovation life cycle, Accolade® and Acclaim™ software and expertise enable innovation, product and project professionals to accomplish the full range of InnovationOps tasks to drive innovation at scale. Sopheon's industry leadership was highlighted in the comprehensive MarketsandMarkets™ report on the Innovation Management market, in which Sopheon was listed in the "Stars" category, the highest recognition. Sopheon's solutions have been implemented by hundreds of blue-chip customers with over 137,000 users in 50 countries. Sopheon is listed on the AIM Market of the London Stock Exchange. For more information, please visit www.sopheon.com

[1] *ARR is the annualized value of all recurring revenue at a point in time reflecting pending renewals, contracted starts (including those conditional on future acceptance decisions) but excludes confirmed future terminations.*

[2] *Revenue visibility is defined in Note 5*

[3] *Adjusted EBITDA is defined in Note 3*

The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014 as it forms part of United Kingdom domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended) ("UK MAR").

CHAIRMAN'S STATEMENT

TRADING PERFORMANCE

Revenue in the first half of 2023 was $17.0m compared to $15.7m in the first half of 2022. Recurring revenue has grown by 21%, offset by reductions in perpetual and consulting business as shown in the table below, extracted from Note 3 - reflecting strong delivery on our strategic objective of prioritizing SaaS sales and associated ARR, underlining a rising quality of revenue in the business.

Six months to 30 June	*2023*	*2022*
	$'000	*$'000*
Perpetual licenses	368	529
Consulting and implementation services	3,625	4,403
SaaS, maintenance and hosting	13,017	10,746
	17,010	15,678

Pure SaaS ARR, the strategic subsection, of ARR relating to SaaS and hosting business, rose from $9.3m to $15.2m – an increase of 63%, underlining the ongoing shift in our customer base and a clear step forward in delivering our strategic ambitions. This achievement includes an estimated $0.5m ARR from sales of Acclaim Projects and Acclaim Ideas. These sales were made by our sales team using our broadened InnovationOps messaging, to both new and existing Accolade customers. The rise in ***total*** recurring revenue is reflected in ARR growing to $25.9m at 30 June 2023, from $21.9m a year ago, an increase of 18%.

Retention levels remain very strong with our ARR gross retention rate at almost 99% year to date, compared to 98% at this time last year. Customer retention is supported by continued strong net promoter score (NPS) of 34 on a 12-month rolling basis, generally considered "great". During the six-month period we also added five new customers for our flagship Accolade software (2022: six). Though the number was lower, average deal size per initial net-new sale was $0.8m, and almost double our long-term benchmark of approximately $0.4m and the average deal size recorded for H1 2022. For the third year running, all our new customers in H1 signed SaaS contracts, underpinning our move to the recurring revenue model.

To date we have converted a total of 27 existing perpetual customers to the SaaS model, typically alongside expansion orders for a greater user population. Approximately half of our active customer base is now under a SaaS contract; this also means that there are fewer perpetual extension orders coming through and this is reflected in the H1 performance. However, as we saw in the second half of 2022 with the very large order from the US Navy, we continue to see a small number of significant perpetual license orders from certain customers and markets. We expect this to continue to be a material, while declining, feature of our business for a number of years, for example we are currently in discussions regarding two material perpetual extension orders from existing military customers, anticipated to close in the second half of this year.

Consulting remains an important element of our revenue goals and we expect this to be a permanent feature of our business, though again one that we expect will decline over time as a percentage of total revenues. The reduction in the first half of the year compared to H1 2022 was more than planned, but amongst other factors reflects the continual improvement in the self-service capabilities offered by our software products.

MARGIN, OPERATIONS AND RESULTS

Gross margin for the period held at 73% (H1 2022: 71%). Direct costs include costs for license and support for certain OEM components of our solution, costs of our hosting operations, and movements in indirect taxes; but the main component is the cost of our delivery and support teams, and associated subcontractors.

Employment costs have continued to rise in support of staff retention and recruitment alongside the significant cost of living increases in all major economies. We have continued to see staff turnover, though many positions have been backfilled rapidly. Average headcount for the first half of the year was 174 (H1 2022: 171). In parallel, we have moderated subcontracting in product development. Lower reported R&D costs also reflect a partial provision booked in H1 2022 to write down cloud assets prior to them being superseded by the acquisitions, as further described in Note 6. Underlying capitalization and amortization remain broadly comparable. Sales and marketing costs have increased by approximately $0.5m reflecting higher marketing investment as well as travel costs returning as the pandemic effects have receded.

Unlike in the prior year, currency movements did not have a significant impact on our USD reported revenue performance, however a stronger sterling during the period meant that our substantial EUR cash balances held in Sopheon plc did record an unrealized book loss of $0.2m, compared to a book profit of $0.4m in H1 2022. This fed through into higher reported administration costs. Financial income has started to respond to higher interest rates, showing $0.2m income compared to a net cost last year.

Profit before tax reported for the half-year period was $0.2m (H1 2022: loss of $0.8m). This result includes net interest, depreciation and amortization, and share-based payment costs totaling $2.7m (H1 2022: $3.7m). The Adjusted EBITDA result for the first half of 2023, which does not include these elements, was broadly flat at $2.9m (H1 2022: $2.9m). Provision has been made for approximately $0.5m in tax, primarily for German corporation tax where we do not benefit from historic losses and USA state taxes driven by the impact of new US tax legislation (H1 2022: $0.3m), giving a much-reduced final loss after tax of $0.2m compared to a loss of $1.1m the year before.

BALANCE SHEET

Net assets at 30 June 2023 stood at $29.8m (30 June 2022: $29.3m / 31 December 2022: $29.6m), with cash at the end of the period standing at $22.4m (30 June 2022: $23.5m / 31 December 2022: $21.1m). The Group has no borrowings.

Intangible assets at 30 June 2023 stood at $13.2m (30 June 2022: $13.2m / 31 December 2022: $13.1m). The total includes (i) $9.3m being the net book value of capitalized research and development (30 June 2022: $8.6m) and (ii) $3.9m (30 June 2022: $4.6m) being the net book value of acquired intangible assets and goodwill.

POST BALANCE SHEET EVENTS

The acquisition of Prodex, completed in July 2023, was structured as transfer of business and assets into a new company immediately acquired by Sopheon. The consideration comprises AUD $1m of which two thirds is payable immediately in cash, and the remainder over three years as contingent deferred consideration tied to baseline performance metrics. Further information is included in Note 10. Sopheon's third acquisition since 2021 brings us a truly global footprint, with a strong platform to advance customer acquisition and growth in the Asia Pacific region.

STRATEGIC PROGRESS

Sopheon's differentiated family of software and services enables companies to deploy InnovationOps across the organization, with a synchronized system to deliver innovation at scale.

Globally, corporate innovation and new product development efforts are characterized by organizational misalignment, disconnected efforts, poor strategic execution and lack of governance – with most businesses stymied by reliance on ad-hoc processes and tools. Innovation spend globally is estimated at $2.4 trillion[4] yet, according to McKinsey, only 6% of CEO's are satisfied with their innovation performance[5]. Further, according to a 2023 study by InnoLead[6], only 57% of companies report having a consistent, systematic approach to innovation. To deal with these challenges, successful companies operationalize their innovation processes, just as they have operationalized many other areas, notably their software development environments through DevOps – now a massive market in its own right.

Traditionally, the Sopheon flagship Accolade software product focused on managing governance, portfolios and strategic execution, and has supported large clients in several key verticals to bring order, visibility and predictability to their innovation efforts. Over the past year and a half, we have expanded our ability to support other verticals and medium sized customers. We have added three new products under the Acclaim banner – two through acquisition – to address customer needs for tools to address ideas and discovery, projects and resources, and product management; alongside continued new releases for Accolade, including two just in the first half of 2023. Recent developments also include the introduction of AI capabilities for two of the products. Each of our offerings – which can all be purchased individually or in integration with the others – is focused on specific innovation tasks that, when brought together with the people and processes across the organization, make InnovationOps a reality.

In parallel with these product advancements, we have established an online sales channel currently focused on Acclaim Ideas and Acclaim Products, to complement and accelerate our traditional sales led model. This new channel continues to show strong sign-up activity, rising from a cold start to benchmark run rates as we refine our marketing and activation models, to maximize both lead generation and end-user adoption. Revenue to date is not yet material; our immediate focus is to build a self-sustaining channel that reflects modern buying behaviors, and brings a new high velocity source of lead generation and market presence, alongside future revenue potential.

Finally, we have also expanded distribution and growth potential through the acquisition of a mature business in the Asia-Pacific region, arguably the world's most dynamic – with software spending forecast by Forrester[7] to see compound annual growth rate over 10% by 2027. M&A remains a key strategic focus for the business and a route to increase the depth and breadth of our product offering, to expand distribution and net new customer acquisition, or increase ARR.

OUTLOOK

Sopheon continues to deliver on its key growth and transformation objectives, demonstrated in particular by significant and sustained increases in SaaS ARR, supported by continued high retention performance. In parallel we have delivered substantial investment in growth initiatives and M&A that expand our product offering, geographical footprint and market opportunity, while maintaining cashflow discipline and EBITDA performance. Our strong balance sheet continues to support our ability to execute with confidence. We expect the impact of increased investments in both marketing and product to contribute to a stronger sales pipeline in the second half of the year and beyond, in support of our growth objectives.

Andy Michuda
Executive Chairman

23 August 2023

[4] *Statista: Total global R&D spending 1996-2022, September 2022*
[5] *McKinsey.com/capabilities/strategy-and-corporate-finance/how-we-help-clients/growth-and-innovation*
[6] *InnoLead: Building a productive innovation portfolio, August 2023*
[7] *Forrester: Asia Pacific Tech Market Forecast, June 2023*

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023 AND 30 JUNE 2022

	Note	*30 June 2023 $'000 (unaudited)*	*30 June 2022 $'000 (unaudited)*
Revenue	3	**17,010**	**15,678**
Cost of sales		(4,649)	(4,571)
Gross profit		**12,361**	**11,107**
Sales and marketing expense		(5,550)	(5,082)
Research and development expense		(3,695)	(4,461)
Administrative expense		(3,058)	(2,307)
Operating Profit/(Loss)		**58**	**(743)**
Finance income (including negative interest income)		233	(13)
Finance expense		(44)	(35)
Profit/(Loss) for the period before tax	3	**247**	**(791)**
Income tax charge	7	(473)	(259)
Loss for the period		**(226)**	**(1,050)**
Loss per share - basic in cents	4	(2.13c)	(9.94c)
Loss per share - fully diluted in cents	4	(2.13c)	(9.94c)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2023 AND 30 JUNE 2022

	2023 $'000 (unaudited)	*2022 $'000 (unaudited)*
Loss for the period	**(226)**	**(1,050)**
Amounts that may be recycled in future periods		
Exchange differences on translation of foreign operations	484	(1,550)
Total comprehensive income/(loss) for the period attributable to the owners	**258**	**(2,600)**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2023, 31 DECEMBER 2022 AND 30 JUNE 2022

	Note	*30 June 2023 $'000 (unaudited)*	*31 Dec 2022 $'000 (audited)*	*30 June 2022 $'000 (unaudited)*
Assets				
Non-current assets				
Property, plant and equipment		542	584	617
Right-of-use assets		508	450	633
Intangible assets	6	13,231	13,073	13,178
Deferred tax asset	7	625	625	2,557
Other receivable		19	19	19
		14,925	**14,751**	**17,004**
Current assets				
Contract assets		4,276	4,085	512
Trade and other receivables		7,941	14,788	8,079
Cash and cash equivalents		22,436	21,121	23,517
		34,653	**39,994**	**32,108**
Total assets		**49,578**	**54,745**	**49,112**
Liabilities				
Current liabilities				
Contract liabilities		14,264	16,501	13,348
Lease liabilities		236	271	270
Trade and other payables		4,528	7,606	5,854
Dividends payable	8	443	-	-
		19,471	**24,378**	**19,472**
Non-current liabilities				
Lease liabilities		283	193	376
Other payables		-	549	-
		283	**742**	**376**
Total liabilities		**19,754**	**25,120**	**19,848**
Net assets		**29,824**	**29,625**	**29,264**
Issued capital and reserves attributable to the owners of the parent				
Share capital		3,253	3,248	3,247
Capital reserves		11,614	11,247	11,326
Translation reserve		(1,110)	(1,594)	(1,582)
Retained earnings		16,067	16,724	16,273
Net assets		**29,824**	**29,625**	**29,264**

CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023 AND 30 JUNE 2022

	2023	*2022*
	$'000	*$'000*
	(unaudited)	*(unaudited)*
Operating Activities		
Loss for the period	(226)	(1,050)
Finance income	(233)	13
Finance expense	44	35
Depreciation of property, plant and equipment	174	213
Depreciation of right-of-use assets	165	302
Amortization and impairment of intangible assets	2,207	2,636
Share based payment expense	303	479
Income tax charge	473	259
Operating cash flows before movement in working capital	2,907	2,887
Decrease in receivables	6,785	4,182
Decrease in payables	(5,409)	(1,504)
Cash generated from operations	4,283	5,565
Income taxes paid	(394)	(90)
Net cash from operating activities	3,889	5,475
Investing Activities		
Finance income	233	(13)
Purchases of property, plant and equipment	(119)	(241)
Purchase of Sopheon shares for treasury	-	(68)
Sale of Sopheon shares held in treasury	58	-
Capitalization of development costs	(2,914)	(2,934)
Cash element of consideration for acquisition of businesses	(205)	(684)
Net cash used in investing activities	(2,947)	(3,940)
Financing Activities		
Exercise of share options	23	244
Lease payments	(181)	(327)
Finance expense	(31)	(23)
Dividends	-	(408)
Net cash used in financing activities	(189)	(514)
Net increase in cash and cash equivalents	**753**	**1,021**
Cash and cash equivalents at the beginning of the period	**21,121**	**24,193**
Effect of foreign exchange rate changes	562	(1,697)
Cash and cash equivalents at the end of the period	**22,436**	**23,517**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2023, 31 DECEMBER 2022 AND 30 JUNE 2022

	Note	*Share Capital $'000*	*Capital Reserves $'000*	*Translation Reserve $'000*	*Retained Earnings $'000*	*Total $'000*
At 1 January 2022 (audited)		**3,219**	**10,500**	**(32)**	**17,619**	**31,306**
Loss for the period		-	-	-	(1,050)	(1,050)
Other comprehensive income[1]		-	-	(1,550)	-	(1,550)
Total comprehensive income		-	-	(1,550)	(1,050)	(2,600)
Dividends payable	8	-	-	-	(408)	(408)
Issues of shares		28	527	-	-	555
Shares purchased for treasury		-	(68)	-	-	(68)
Share based payments		-	479	-	-	479
Exercise of share options		-	(112)	-	112	-
At 30 June 2022 (unaudited)		**3,247**	**11,326**	**(1,582)**	**16,273**	**29,264**
Profit for the period		-	-	-	173	173
Other comprehensive income[1]		-	-	(12)	-	(12)
Total comprehensive income		-	-	(12)	173	161
Issues of shares		1	4	-	-	5
Shares purchased for treasury		-	(87)	-	-	(87)
Share based payments		-	282	-	-	282
Exercise of share options		-	(278)	-	278	-
At 31 December 2022 (audited)		**3,248**	**11,247**	**(1,594)**	**16,724**	**29,625**
Loss for the period		-	-	-	(226)	(226)
Other comprehensive income[1]		-	-	484	-	484
Total comprehensive income		-	-	484	(226)	258
Dividends payable	8	-	-	-	(443)	(443)
Issues of shares		5	18	-	-	23
Sale of treasury shares		-	58	-	-	58
Share based payments		-	303	-	-	303
Exercise of share options		-	(12)	-	12	-
At 30 June 2023 (unaudited)		**3,253**	**11,614**	**(1,110)**	**16,067**	**29,824**

[1] *Other comprehensive income is comprised solely of exchange differences arising on translation of foreign operations.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Sopheon plc is a company domiciled in England. The interim financial information of the Company for the six months ended 30 June 2023 comprise the Company and its subsidiaries (together referred to as the "Group").

The Board of Directors approved this interim report on 23 August 2023.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation and accounting policies

These condensed consolidated financial statements have been prepared in accordance with UK adopted international accounting standards in accordance with the requirements of the Companies Act 2006. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 31 December 2022 Annual Report. The financial information for the half years ended 30 June 2023 and 30 June 2022 does not constitute statutory accounts within the meaning of Section 434 (3) of the Companies Act 2006 and both periods are unaudited.

The annual financial statements of Sopheon plc (‘the Group’) are prepared in accordance with UK adopted international accounting standards in accordance with the requirements of the Companies Act 2006. The statutory Annual Report and Financial Statements for 2022 have been filed with the Registrar of Companies. The Independent Auditors’ Report on the Annual Report and Financial Statements for the year ended 31 December 2022 was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) - (3) of the Companies Act 2006.

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 31 December 2022 annual financial statements, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2023 and will be adopted in the 2023 financial statements. There are deemed to be no new and amended standards and/or interpretations that will apply for the first time in the next annual financial statements that are expected to have a material impact on the Group.

Going Concern

The consolidated financial statements have been prepared on a going concern basis. In reaching their assessment, the directors have considered a period extending at least 12 months from the date of approval of this half-yearly financial report. There remains significant geopolitical instability with actions like the war in Ukraine have varied widespread economic impacts on a number of key markets, with high levels of inflation, potential for causing delays in contract negotiations and/or cancellation of anticipated sales, as well as uncertainty over cash collection from certain customers. The Group proved to be resilient in the face of such pressures; however, the directors have continued to perform detailed forecast stress testing, assessing how much forecasts would need to reduce by in order to cause cash constraints, and also to consider the likelihood of this scenario occurring. The results of this analysis continue to give the directors comfort that a scenario which would cause such cash restrictions is remote, and therefore not a realistic outcome to consider. This assessment has included the Group’s actual cash holdings as of the date of the approval of this report, and the financing alternatives available. The Group’s cashflows are projected to be at a sufficient level to allow the Group to meet its obligations and liabilities as they fall due. Thus, the directors of the Company continue to adopt the going concern basis of accounting in preparing the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales-related taxes. Sales of perpetual software licenses are recognized once no significant obligations remain owing to the customer in connection with such license sale. Such significant obligations could include giving a customer a right to return the software product without any preconditions, or if the Group is unable to deliver a material element of the software product by the balance sheet date. Revenues relating to software subscription, maintenance, and hosting agreements are deferred creating a contract liability at the period end, and recognized evenly over the term of the agreements, due to the customer simultaneously receiving and consuming the benefits of the contractual performance obligation over that term. Revenues from implementation and consultancy services are recognized as the services are performed, or in the case of fixed price or milestone-based projects, on a percentage basis as the work is completed and any relevant milestones are met, using latest estimates to determine the expected duration and cost of the project. Based on stage of completion and billing arrangement, either a contract asset or a contract liability is created at the period end. Where a sales contract involves multiple service obligations, the allocation of the transaction price is performed proportionally based on the standalone selling price for each obligation. The way in which management assigns the selling price to each separate performance obligation is based on the cost of satisfying the performance obligation plus an appropriate margin based on experience of standalone sales.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized only to the extent that the level and timing of taxable profits can be measured and it is probable that these will be available against which deductible temporary differences can be utilized. Deferred tax is calculated at tax rates that have been enacted or substantively enacted at the balance sheet date, and that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Internally Generated Intangible Assets (Research and Development Expenditure)

Development expenditure on internally developed software products is capitalized if it can be demonstrated that:

- it is technically feasible to develop the product;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sales of the product will generate future economic benefits; and
- expenditure on the product can be measured reliably.

Development costs not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in the income statement as incurred. Capitalization of a particular activity commences after proof of concept, requirements and functional concept stages are complete. Capitalized development costs are amortized over the period over which the Group expects to benefit from selling the product developed. This has been estimated to be four years from the date of code-finalization of the applicable software release. The amortization expense in respect of internally generated intangible assets is included in research and development costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. REVENUE, SEGMENTAL ANALYSIS AND EBITDA

All of the Group's revenues in respect of the six-month periods ended 30 June 2023 and 30 June 2022 derived from the design, development and marketing of software products with associated implementation and consultancy services. The following table disaggregates revenue in accordance with the IFRS 15 requirement to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Six months to 30 June	*2023*	*2022*
	$'000	*$'000*
Perpetual licenses	368	529
Consulting and implementation services	3,625	4,403
SaaS, maintenance and hosting	13,017	10,746
	17,010	15,678

For management purposes, the Group is organized across two principal geographic operating segments, as used in the Group's last annual financial statements. The first segment is North America, and the second Europe. Information relating to these two segments is given below.

Six months to 30 June 2023	*N America*	*Europe*	*Total*
	$'000	*$'000*	*$'000*
External revenues	10,393	6,617	17,010
Profit before tax	244	3	247
Adjusted EBITDA	2,768	139	2,907
Total assets	25,214	24,364	49,578
Total liabilities	11,754	8,000	19,754

Six months to 30 June 2022	*N America*	*Europe*	*Total*
	$'000	*$'000*	*$'000*
External revenues	10,333	5,345	15,678
Loss before tax	(784)	(7)	(791)
Adjusted EBITDA	2,582	305	2,887
Total assets	25,932	23,180	49,112
Total liabilities	13,024	6,824	19,848

Adjusted EBITDA is arrived at after adding back net finance costs, depreciation, amortization, impairment and share-based payment expense amounting to $2,660,000 (2022: $3,678,000) to the loss before tax. Details of these amounts are set out in the reconciliation of operating cash flows before movement in working capital, in the consolidated cash flow statement. Adjusted EBITDA is a key indicator of the underlying performance of our business, commonly used in the technology sector. It is also a key metric for management and the financial analyst community.

All information provides analysis by location of operations Loss before tax and EBITDA are stated after adjusting for an estimate for intra-group charges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. EARNINGS /(LOSS) PER SHARE

The calculation of basic earnings/(loss) per ordinary share is based on the loss of $226,000 (2022: loss of $1,050,000) and on 10,632,802 ordinary shares (2022: 10,564,081) being the weighted average number of ordinary shares in issue during the period.

For the purpose of calculating the diluted earnings per ordinary share, any options to subscribe for Sopheon shares at prices below the average share price prevailing during the period are treated as exercised at the later of 1 January 2023 or the grant date. The treasury stock method is then used, assuming that the proceeds from such exercise are reinvested in treasury shares at the average market price prevailing during the period. The diluted number of shares used at 30 June 2023 is 10,649,159 (2022: 10,682,876). However, with respect to both periods to 30 June 2023 and 30 June 2022, since this would have the effect of reducing the loss per ordinary share, it is not dilutive and is therefore ignored.

5. REVENUE VISIBILITY

Revenue visibility at any point in time comprises revenue expected during the current year from (i) closed license orders, including those which are contracted but conditional on acceptance decisions scheduled later in the year; (ii) contracted services business delivered or expected to be delivered in the year; and (iii) recurring maintenance, hosting and license subscription streams. The visibility calculation does not include revenues from new sales opportunities expected to close later in the year.

6. INTANGIBLE ASSETS & GOODWILL

Certain development expenditure is required to be capitalized and amortized based on detailed technical criteria (note 2) rather than automatically charging such costs in the income statement as they arise. This has led to the capitalization of $2,914,000 (2022: $2,934,000), and amortization of $1,926,000 (2022: $1,541,000) during the period. In addition, an adjustment has been made to the contingent deferred consideration arising from the acquisition of Solverboard in 2022, reducing both goodwill and the deferred consideration liability by $549,000. A 50% impairment provision was made in the period to 30 June 2022 against the capitalized costs associated with the cloud platform development, amounting to $814,000. Amortization of $281,000 (2022: $281,000) has also been charged in respect of technology and intellectual property rights acquired pursuant to the acquisition of ROI Blueprints LLC in 2021.

7. TAXATION

The tax charge reflects certain US state taxes and German corporate taxes. Amendments to US Code Section 174 now require taxpayers to charge their research expenditures and software development costs to a capital account. Capitalized costs are required to be amortized over five years (15 years for foreign costs) which is a key factor in the higher tax charge for the period. At 30 June 2023, income tax losses estimated at $46m (2022: $51m) were available to carry forward by the Group, arising from historic losses incurred at the US federal level and also in the UK and the Netherlands. These losses have given rise to a recognized deferred tax asset of $0.6m (2022: $2.6m) and a further, but currently unrecognized, potential deferred tax asset of $8.7m (2022: $8.8m), based on the tax rates currently applicable in the relevant tax jurisdictions. An aggregate $8m (2022: $9m) of these tax losses are subject to restriction under section 392 of the US Internal Revenue Code, whereby the ability to utilize net operating losses arising prior to a change of ownership is limited to a percentage of the entity value of the corporation at the date of change of ownership. In addition to income taxes, the Group is also subject to sales and value added tax in the various jurisdictions in which it operates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. DIVIDEND

The Board proposed a final dividend in respect of the year ended 31 December 2022 of 3.25p per share (2022: 3.25p per share). This was approved by the shareholders in the annual general meeting held on 8 June 2023, due to shareholders on the register at the close of business on 9 June 2023 and paid 7 July 2023.

9. PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The directors do not consider that these have changed since the publication of the annual report for the year ended 31 December 2022, which contains a detailed explanation of the risks relevant to the Group on page 25, and is available at www.sopheon.com. Other risks and uncertainties of the Group are disclosed in the Chairman's Statement and the notes to the interim financial information included in this half-yearly financial report.

In addition, the Board have continued to monitor and mitigate the effects of the War in Ukraine. In February 2022, Russia invaded Ukraine leading to a strong sanction response by many jurisdictions around the world including by the UK, USA and EU. Sopheon is committed to honoring the sanctions imposed on Russia, named individuals, and business entities. In addition, Sopheon, like many companies worldwide, has suspended all business activity with Russian entities. Although Sopheon does not have any active customers in Ukraine or Russia, prior to the invasion the Group was involved in a small number of material sales opportunities within the territory, which were terminated. This does not have any impact on the Group's ability to continue as a going concern.

10. POST BALANCE SHEET EVENTS

The acquisition of Prodex, completed in July 2023, was structured as transfer of business and assets into a new company immediately acquired by Sopheon. The consideration comprises AUD $1m of which two thirds is payable immediately in cash, and the remainder over three years as contingent deferred consideration tied to baseline performance metrics. An additional contingent earn-out of up to a maximum of AUD $1.2m is also payable over the next three years, tied to revenue and EBIT growth objectives. Up to 50% of the deferred and earn-out consideration may be satisfied in Sopheon shares calculated at £5.63 per share being the average closing price of the two weeks preceding the signature of the agreement. The cash consideration component of the acquisition is being funded out of existing and healthy cash resources. The share consideration elements will be subject to orderly market provisions.

11. CAUTIONARY STATEMENT

This report contains certain forward-looking statements with respect to the financial condition, results of operations and businesses of Sopheon plc. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report. However, such statements should be treated with caution as they involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Nothing in this announcement should be construed as a profit forecast.

INDEPENDENT REVIEW REPORT TO SOPHEON PLC

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 is not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34 and the London Stock Exchange AIM Rules for Companies.

We have been engaged by the Group to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2023 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidation statement of financial position, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with UK adopted international accounting standards. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with UK adopted International Accounting Standard 34, Interim Financial Reporting.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410, however future events or conditions may cause the Group to cease to continue as a going concern.

Responsibilities of directors

The directors are responsible for preparing the half-yearly financial report in accordance with the London Stock Exchange AIM Rules for Companies which require that the half-yearly report be presented and prepared in a form consistent with that which will be adopted in the Group's annual accounts having regard to the accounting standards applicable to such annual accounts.

In preparing the half-yearly financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT REVIEW REPORT TO SOPHEON PLC

Auditor's responsibilities for the review of the financial information

In reviewing the half-yearly report, we are responsible for expressing to the Group a conclusion on the condensed set of financial statement in the half-yearly financial report. Our conclusion, including our Conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report.

Use of our report

Our report has been prepared in accordance with the terms of our engagement to assist the Group in meeting the requirements of the rules of the London Stock Exchange AIM Rules for Companies for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

BDO LLP
Chartered Accountants
Gatwick, UK
23 August 2023

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