26 November 2018

INTERCEDE GROUP plc
('Intercede', the 'Company' or the 'Group')

Interim Results for the Six Months Ended 30 September 2018

Intercede, the leading specialist in digital identity, credential management and secure mobility, today announces its interim results for the six months ended 30 September 2018.

Financial Highlights

- Revenues increased by 14% to £4.2m (2017: £3.7m). New wins in the first six months of the year include license orders from new and existing customers and involve new technology (mobile ID and derived credentials) as well as traditional (smartcard).

- Operating expenses reduced by 29% to £4.7m (2017: £6.7m) following the cost-cutting review that was initiated in the second half of the prior financial year.

- Operating loss substantially reduced to £0.6m (2017: £3.1m).

- A profit for the period of £0.2m (2017: loss of £2.1m) resulted in a basic and a fully diluted profit per share of 0.3p (2017: basic and fully diluted loss per share of 4.3p).

- Cash balances of £3.6m at 30 September 2018 represent an increase on the £2.3m of cash balances at 31 March 2018, primarily driven by positive cash generation from operating activities and the receipt of the 2018 R&D tax claim.

Operating Highlights

- New Chief Operating Officer and Chief Sales Officer appointed and on track in improving standards and operating performance.

- On time delivery of a MyID solution to a Middle Eastern country to issue mobile government identities to its citizens.

- A follow-on MyID license sale to an existing US Federal agency customer to enable their users to issue a derived PIV credential to a mobile device using their original PIV card. There are promising signs that US Federal agencies are starting to buy and implement FIPS 201 compliant mobile solutions.

- Development commenced on a more standard variant of the MyID product with out-of-the-box connectivity that can be sold through Intercede's global network of authorised partners.

Chuck Pol, Chairman, said:

"The new management team has made a promising start in the first half of the current year and it is pleasing to note the growth in revenues against the backdrop of the cost-cutting review. The improved cost efficiency, and focus on the core MyID product, gives the Board confidence that Intercede will return to profit during the next financial year.

This is a challenging but important period for Intercede as we build a firm foundation to preserve our culture of innovation. This innovation continues to be evident through the development of a more standard version of our software that can be sold through Intercede's global network of authorised partners and should broaden the market appeal of MyID."

ENQUIRIES

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About Intercede

Intercede is a cybersecurity company specialising in digital identities, derived credentials and access control, enabling digital trust in a mobile world.

Headquartered in the UK, with offices in the US, we believe in a connected world in which people and technology are free to exchange information securely, and complex insecure passwords become a thing of the past.

Our vision is to make the highest levels of cybersecurity available to organizations and consumers alike, solving complexity and scalability issues by managing high volumes of digital credentials.

We have been delivering trusted solutions to high profile customers for over 20 years. Our team of experts has deployed millions of identities to governments, most of the largest aerospace and defence corporations, and major financial services and healthcare organizations, as well as leading telecommunications, cloud services and information technology firms, providing industry-leading employee and customer credential management systems.

For more information visit: www.intercede.com

The information communicated in this announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No. 596/2014.

INTERCEDE GROUP plc

('Intercede', 'the Company' or 'the Group')

Interim Results for the Six Months Ended 30 September 2018

Chairman's Statement

Introduction

Intercede started this financial year having reorganised the management team and reduced the cost base in line with future revenue forecasts. It is pleasing to note that six months into the year, these changes are showing evidence of improved operating performance and meaningful revenue growth. The revenue growth has come from a combination of upselling to existing customers, implementation and roll-out to new customers won last year and contract wins with new customers. This is explored in more detail in the Revenue Highlights section below.

Klaas van der Leest was appointed as Chief Executive on 10 April 2018 and has strengthened the management team by appointing Mike Weston as Chief Operating Officer and Jean Dignand as Chief Sales Officer. The new management team is tasked with improving standards and operating performance and it is encouraging to see that revenue for the first six months of this year is 14% higher than last year, while operating costs are 29% lower. As a result, operating losses for the first half of this financial year are substantially reduced and 81% lower than the same period last year. The Board continues to have confidence that Intercede will return to profit during the next financial year.

Revenue Highlights

- A new sale of MyID to a US Mid-Western diversified energy company to manage digital identities for 15,000 devices.
- A new award of a MyID contract from a US Federal agency tasked with intelligence and security services.
- An initial MyID license sale to an intergovernmental alliance organisation.
- A follow-on MyID license sale to an existing US Federal agency customer to enable their 100,000 users to issue derived PIV credentials to a mobile device using their original PIV card.
- An existing US Federal agency customer, who was won in FY2017, placed a subsequent order for 35,000 devices for a new deployment.
- A follow-on MyID license sale for over 20,000 licenses to the largest US military shipbuilding company. This is on the back of a successful implementation following the customer's initial license purchase in the prior year.
- A follow-on license sale of 20,000 licenses to a leading European telecommunications company to enable them to extend their MyID solution to their internationally based employees.

All of these wins are expected to generate incremental revenue over the next twelve months from a combination of support & maintenance plus potential professional services, development and/or follow-on license sales.

Financial Results

Revenues in the period totalled £4,174,000, a 14% increase compared to the corresponding period last year. This reflects a strong second quarter with steady growth in month-on-month orders, some of which will generate revenue in the second half of this financial year. These orders include four new deployments and follow-on sales to existing customers and customers who were won in the previous financial year. The 2018 Annual Report & Accounts highlighted a number of significant orders that were expected to generate revenue in the next financial year and this is proceeding to plan. This includes the delivery of a MyID solution to issue mobile government identities to citizens of a Middle Eastern country and the delivery of a pilot deployment for a large European bank.

Compared to the first half of the prior year, operating expenses fell by 29% to £4,748,000 (2017: £6,704,000). This reflects the cost-cutting review that was initiated in the second half of the prior financial year. This review was introduced with the aim of focussing the business on delivering core MyID solutions and returning Intercede to profit within two years. It is pleasing to note that this plan is on track.

Staff costs continue to represent the main area of expense, representing 83% of total operating costs (2017: 75%). Intercede had 85 employees and contractors as at 30 September 2018 (30 September 2017: 124). The average number of employees and contractors during the period was 89 (2017: 123). The reduction in employees and contractors reflects the cost-cutting review, initiated in the previous financial year, and has not impacted Intercede's ability to deliver MyID solutions.

A £993,000 taxation credit for the period (2017: £1,141,000 taxation credit) primarily reflects the 2018 Research & Development ("R&D") claim which results from the Group's strategic investment activities. The Group is a beneficiary of the UK Government's efforts to encourage innovation by allowing 130% of qualifying R&D expenditure to be offset against taxable profits and allowing 14.5% of the lower of R&D losses or taxable losses to be paid as tax credits.

The increase in revenues combined with the reduction in operating expenses has resulted in a substantial reduction in the first half operating loss of £589,000 (2017: £3,075,000). A profit for the period of £170,000 (2017: loss of £2,146,000) resulted in a basic and a fully diluted profit per share of 0.3p (2017: basic and fully diluted loss per share of 4.3p).

Cash balances as at 30 September 2018 totalled £3,623,000 compared to £2,272,000 as at 31 March 2018 and £4,818,000 as at 30 September 2017. The increase in cash balances since 31 March 2018 is primarily driven by positive cash generation from operating activities and the receipt of the 2018 R&D tax claim.

Operational Review

MyID is a highly configurable platform that integrates with a broad range of third party technologies to make up a digital identity ecosystem. It has therefore been an attractive solution for large organisations, such as Aerospace & Defence contractors and Governments, and will continue to generate large deals, which is evident from the interest in MyID for Citizen ID.

In the previous financial year, Intercede made a sale of a MyID solution to a Middle Eastern country to issue mobile government identities to its citizens. This has now been delivered and is undergoing user acceptance testing by the customer. This MyID solution will allow the citizen to use an app to strongly authenticate to government provided services plus potential third party provided services such as healthcare and banking, enabling them to use the highest assurance levels delivered by a National Identity. It is this feature that makes this solution stand out from other mobile National ID schemes, as the citizen can use a single Digital Identity to authenticate to a number of online services, combining the convenience of digital service delivery with the highest levels of security. This deployment of strong authentication to services from mobile apps provides validation that Intercede's early investment in mobility is capable of generating meaningful revenue.

There are also promising signs that US Federal agencies are starting to buy and implement FIPS-201 compliant mobile solutions, particularly for the issuance of derived PIV credentials to mobile devices. During the first six months of this financial year, Intercede was awarded a contract to provide an existing US Federal agency customer with a solution to issue a derived PIV credential to a mobile device using the employee's original PIV card. This is expected to utilise the investment Intercede has made in integrating with Mobile Device Management (MDM) systems such as AirWatch and demonstrates that Intercede's ability to use iOS and Android smartphones as an identity device is relevant to the market. MyID is now able to support a range of credential stores, including the device native key store (iOS and Android), MyID protected software key store, and a range of MDM and Enterprise Mobility Management (EMM) systems' key stores. This technology and Intercede's reusable skill base provide a competitive advantage to win other mobile opportunities that are currently in the pipeline for various US Federal agencies.

The ability to issue mobile ID and derived credentials demonstrates that MyID can evolve to meet the needs of its traditional markets. In addition, Intercede is also looking to more effectively address the mid-market by targeting organisations, such as those in the healthcare, pharmaceutical and finance sectors, who are looking for ways to protect themselves against data breach. The threat of cyber-attack is widespread and can cause reputational damage, fines and even adversely affect the ability to stay in business. Replacing passwords with strong 2-factor authentication is the single most effective way for an organisation to protect themselves against the number one cause of data breach – weak or compromised user credentials.

Intercede have established and managed Digital Trust for the world's largest companies and heavily regulated government agencies, including the US Government. These skills and knowledge are currently being applied to the development of a more standard product with out-of-the-box connectivity that can be sold through Intercede's global network of authorised partners. By developing a variant of MyID to be more of a shrink-wrapped product, the partner can resell it along with their own products or services. For larger projects, partners typically integrate MyID into a wider solution using the wide range of APIs (Application Programming Interface) and SDKs (Software Development Kit) provided with the platform.

Strategy and Outlook

The past couple of years have been challenging for Intercede but, during that time, investment in product development, and associated skills and expertise, has kept MyID as the benchmark for Digital Trust within government circles and amongst some of the world's largest security sensitive organisations. New wins in the first six months of the year include license orders from new and existing customers and involve new technology (mobile ID and derived credentials) as well as traditional (smartcard).

This period has seen Intercede take important steps to improve cost efficiency and focus on the core MyID product, including commencing the development of a more standard variant of MyID that will appeal to the broader market. This should create a firm foundation for the Group so it can continue to drive innovation in Digital Trust and leverage past investment in technologies such as 'MyID as a Service', RapID and MyTAM.

This past investment has enhanced Intercede's expertise and skills and placed the Group in a position to also provide Digital Trust for the consumers of mobile applications and mass produced electrical goods that will make up the IoT market. Unlike Intercede's traditional customers, these target markets are currently struggling to understand cryptographic key management and the PKI infrastructure and why it provides better Digital Trust than, say, biometric security or SMS one-time passwords.

Against a backdrop of ever increasing cyber-threats, Intercede will continue to drive its innovation culture and remains optimistic that, over time, suppliers and consumers of mobile applications and the IoT will come to recognise the importance of Digital Trust.

Chuck Pol
Chairman
26 November 2018

Consolidated Statement of Comprehensive Income
For the period ended 30 September 2018

	6 months ended 30 September 2018 £'000	6 months ended 30 September 2017 £'000	Year ended 31 March 2018 £'000
Continuing operations			
Revenue	4,174	3,651	9,204
Cost of sales	(15)	(22)	(41)
Gross profit	4,159	3,629	9,163
Operating expenses	(4,748)	(6,704)	(13,669)
Operating loss	(589)	(3,075)	(4,506)
Finance income	5	5	10
Finance costs	(239)	(217)	(452)
Loss before tax	(823)	(3,287)	(4,948)
Taxation	993	1,141	1,118
Profit/(loss) for the period	170	(2,146)	(3,830)
Total comprehensive income/(expense) attributable to owners of the parent company	170	(2,146)	(3,830)
Earnings/(loss) per share (pence)			
- basic	0.3p	(4.3)p	(7.6)p
- diluted	0.3p	(4.3)p	(7.6)p

Consolidated Balance Sheet
As at 30 September 2018

	As at 30 September 2018 £'000	As at 30 September 2017 £'000	As at 31 March 2018 £'000
Non-current assets			
Property, plant and equipment	207	636	195
Current assets			
Assets held for sale	373	-	373
Trade and other receivables	2,355	1,910	4,709
Cash and cash equivalents	3,623	4,818	2,272
	6,351	6,728	7,354
Total assets	6,558	7,364	7,549
Equity			
Share capital	505	505	505
Share premium	673	673	673
Equity reserve	66	60	66
Merger reserve	1,508	1,508	1,508
Accumulated deficit	(5,381)	(4,285)	(5,719)
Total equity	(2,629)	(1,539)	(2,967)
Non-current liabilities			
Convertible loan notes	4,708	4,641	4,670
Deferred revenue	221	185	324
	4,929	4,826	4,994
Current liabilities			
Trade and other payables	1,406	1,517	1,857
Deferred revenue	2,852	2,560	3,665
	4,258	4,077	5,522
Total liabilities	9,187	8,903	10,516
Total equity and liabilities	6,558	7,364	7,549

Consolidated Statement of Changes in Equity
For the period ended 30 September 2018

	Share capital £'000	Share premium £'000	Equity reserve £'000	Merger reserve £'000	Accumulated deficit £'000	Total £'000
At 1 April 2018	505	673	66	1,508	(5,719)	(2,967)
Proceeds from recycling of own shares	-	-	-	-	12	12
Employee share option plan credit	-	-	-	-	(1)	(1)
Employee share incentive plan charge	-	-	-	-	157	157
Profit for the period and total comprehensive income	-	-	-	-	170	170
At 30 September 2018	505	673	66	1,508	(5,381)	(2,629)
At 1 April 2017	499	673	60	1,508	(2,354)	386
Purchase of own shares	-	-	-	-	(93)	(93)
Re-issuance of treasury shares	-	-	-	-	138	138
Employee share option plan charge	-	-	-	-	8	8
Employee share incentive plan charge	-	-	-	-	162	162
Issue of ordinary shares	6	-	-	-	-	6
Loss for the period and total comprehensive expense	-	-	-	-	(2,146)	(2,146)
At 30 September 2017	505	673	60	1,508	(4,285)	(1,539)
At 1 April 2017	499	673	60	1,508	(2,354)	386
Purchase of own shares	-	-	-	-	(147)	(147)
Employee share option plan credit	-	-	-	-	(19)	(19)
Employee share incentive plan charge	-	-	-	-	493	493
Issue of new shares	6	-	-	-	-	6
Re-issuance of treasury shares	-	-	-	-	138	138
Equity component of convertible loan notes	-	-	6	-	-	6
Loss for the year and total comprehensive expense	-	-	-	-	(3,830)	(3,830)
At 31 March 2018	505	673	66	1,508	(5,719)	(2,967)

Consolidated Cash Flow Statement
For the period ended 30 September 2018

	6 months ended 30 September 2018 £'000	6 months ended 30 September 2017 £'000	Year ended 31 March 2018 £'000
Cash flows from operating activities			
Operating loss	(589)	(3,075)	(4,506)
Depreciation	63	82	156
Employee share option plan (credit)/charge	(1)	8	(19)
Employee share incentive plan charge	157	162	493
Employee unit incentive plan charge	6	7	2
Employee unit incentive plan payment	-	-	(8)
Decrease/(increase) in trade and other receivables	2,312	(573)	(3,340)
(Decrease)/increase in trade and other payables	(460)	85	434
(Decrease)/increase in deferred revenue	(916)	(221)	1,023
Cash generated from/(used in) operations	572	(3,525)	(5,765)
Finance income	3	4	13
Finance costs on convertible loan notes	(199)	(150)	(344)
Taxation	993	1,141	1,118
Net cash generated from/(used in) operating activities	1,369	(2,530)	(4,978)
Investing activities			
Purchases of property, plant and equipment	(75)	(23)	(29)
Cash used in investing activities	(75)	(23)	(29)
Financing activities			
Proceeds from recycling/(purchase) of own shares	12	(87)	(141)
Proceeds from re-issuance of treasury shares	-	138	138
Proceeds from issue of convertible loan notes	-	510	510
Convertible loan note issue costs	-	(25)	(27)
Cash generated from financing activities	12	536	480
Net increase/(decrease) in cash and cash equivalents	1,306	(2,017)	(4,527)
Cash and cash equivalents at the beginning of the period	2,272	6,891	6,891
Exchange gains/(losses) on cash and cash equivalents	45	(56)	(92)
Cash and cash equivalents at the end of the period	3,623	4,818	2,272

Notes to the Consolidated Accounts
For the period ended 30 September 2018

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 2018.

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from 1 April 2018. The adoption of these standards does not have a material effect on the Group's financial statements, as disclosed in the Group's 2018 Notes to the Consolidated Financial Statements. IFRS 9 requires the application of an impairment model to trade receivables, in order to recognise credit losses based on historical observed default rates. The Group's historical observed default rates are extremely low and trade receivables have not been impaired. 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 2018 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 losses and net liabilities 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 2018 £'000	6 months ended 30 September 2017 £'000	Year ended 31 March 2018 £'000
UK	201	187	533
Rest of Europe	827	451	963
North America	2,814	2,774	6,506
Rest of World	332	239	1,202
	4,174	3,651	9,204

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. Potential dilution cannot be applied to a loss making period.

	6 months ended 30 September 2018 £'000	6 months ended 30 September 2017 £'000	Year ended 31 March 2018 £'000
Profit/(loss) for the period	170	(2,146)	(3,890)
	Number	Number	Number
Weighted average number of shares			
– basic	50,482,281	49,944,619	50,212,714
– diluted	58,562,299	49,944,619	50,212,714
	Pence	Pence	Pence
Earnings/(loss) per share			
– basic	0.3p	(4.3)p	(7.6)p
– diluted	0.3p	(4.3)p	(7.6)p

The weighted average number of shares used in the calculation of basic and diluted earnings/(loss) per share for each period were calculated as follows:

	6 months ended 30 September 2018 Number	6 months ended 30 September 2017 Number	Year ended 31 March 2018 Number
Issued ordinary shares at start of period	50,523,926	49,903,143	49,903,143
Effect of treasury shares	(41,645)	(189,197)	(115,623)
Effect of issue of ordinary shares	-	230,673	425,194
Weighted average number of shares – basic	50,482,281	49,944,619	50,212,714
Add back effect of treasury shares	41,645	N/A	N/A
Effect of share options in issue	764,986	N/A	N/A
Effect of convertible loan notes in issue	7,273,387	N/A	N/A
Weighted average number of shares – diluted	58,562,299	49,944,619	50,212,714

5 Dividend

The Directors do not recommend the payment of a dividend.