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SOPHEON PLC

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

AUDITED RESULTS STATEMENT FOR THE YEAR TO 31 DECEMBER 2018

Rising Maturity

Sopheon plc, the international provider of software, expertise, and best practices for Enterprise Innovation Performance, is pleased to announce its results for the year ended 31 December 2018, comfortably in line with already upgraded market expectations, together with an outlook for the current year.

HIGHLIGHTS:

Revenue:	$33.9m	(2017: $28.5m)
EBITDA:	$8.9m	(2017: $8.0m)
PBT:	$6.4m	(2017: $5.1m)
Net cash:	$16.7m	(2017: $9.5m)
- Financial outperformance underlines continuing momentum in the business.
- 18 new customer wins (13 in the prior year).
- Full year 2019 revenue visibility of $20.6m (2017: $19.3m).
- Mentioned in 22 research reports from leading industry voices such as Gartner and Forrester Research. Vision extended from innovation to helping major enterprises achieve their strategic goals, dramatically expanding horizons and potential.
- Dividend proposed of 3.25p per share (2017: 2.5p).

Barry Mence, Chairman, commented: *"With a large diversified blue-chip client base, a comprehensive software platform and deep sector expertise, we have a unique opportunity to advance our category leader status. Strategically, now is the time to accelerate investment and solidify our leadership position … Visibility already stands at $20.6m and our sales pipeline includes a number of large opportunities; furthermore, in parallel with organic investments, we will continue to assess corporate paths to accelerate our progress. I would like to close this statement by announcing a proposal to increase our dividend from 2.5p to 3.25p per share. I am delighted to be following through on the commitment made last year to maintain a progressive dividend policy, which the board believes underlines our maturity as a business."*

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About Sopheon. Sopheon (LSE: SPE) partners with customers to provide complete enterprise innovation management solutions including software, expertise, and best practices, that enable them to achieve exceptional long-term revenue growth and profitability. Sopheon's Accolade® solution provides unique, fully-integrated coverage for the entire innovation management and new product development lifecycle, including strategic innovation planning, roadmapping, idea and concept development, process and project management, portfolio management and resource planning. Sopheon's solutions have been implemented by over 250 customers with over 60,000 users in over 50 countries. Sopheon is listed on AIM, operated by the London Stock Exchange. For more information, please visit www.sopheon.com.

CHAIRMAN'S STATEMENT

I am pleased to report another year of solid strategic and financial progress for Sopheon. In recent years I have described how we have broadened our mission from one that helps R&D organizations to improve innovation, to one that helps major enterprises achieve their strategic goals. This extension of our vision into what some are beginning to call a third major pillar of the enterprise stack – alongside ERP and CRM – has dramatically expanded our horizons and potential. In an increasingly digital world, organizations are challenged to operate with more agility and velocity to survive and thrive; this is where Sopheon can help and add significant value to our customers. The potential addressable market for this opportunity is very substantial. Sopheon continues to benefit from increased market recognition through industry business analyst leaders Gartner and Forrester Research having been named in 22 research reports in 2018.

While executing on our growth strategy, we continued to strengthen our financial performance. Once again, revenues, EBITDA[1] and other profit measures in 2018 all exceeded market expectations, and resulted in two upward revisions. Revenues rose to $33.9m from $28.5m in 2017. EBITDA reached $8.9m, up from $8m. Substantial realignment of our debt position in 2017 has fed through into an even larger increase in profit before tax, to $6.4m compared to $5.1m the year before. Our balance sheet is now very strong indeed, with net assets rising to $25.6m from $18.6m the year before, and net cash rising to $16.7m from $9.5m; 100% of this growth has been generated organically.

New customer acquisition increased by 39 percent, rising from 13 to 18 new license wins. At the same time, we are proud of our very strong and increasingly enterprise-focused customer relationships – over two-thirds of our annual revenues come from existing customers. Five of our new license deals were for software as a service (SaaS) transactions. When combined with further increases in maintenance and hosting, this has led to Sopheon closing the year with a total recurring revenue run rate of $15m, compared to $12m the year before. Together with a solid backlog of services business coming out of 2018, coupled with a few early-reported sales in 2019, current year revenue visibility[2] now stands at $20.6m as compared to $19.3m at this time last year.

We continue to focus on and refine our three core growth strategies − to extend our footprint in existing customers with an enterprise platform approach, to target new business with an unambiguously vertical focus, and to develop a partnership ecosystem. These are described in more detail later in this statement. These core strategies, along with our tremendous staff and unique culture, have been at the root of our consistent and solid financial performance. In the context of financial performance, I want to come back to the theme of recurring revenue. We are very proud of our strong customer relationships, repeat business and growing $15m recurring revenue base. Approximately $3m of this is SaaS and hosting. Looking forward, our strong sales pipeline includes a number of larger opportunities, validating the strategic evolution I described earlier. As always with a mostly perpetual, on-premises model, such deals can have a big revenue effect on the period in which they close. However, as noted above, customer preference for perpetual rather than SaaS licensing in our market is beginning to shift. With our balance sheet strong, we are assessing how to accelerate this migration to an even higher recurring revenue model.

Outlook

With a large diversified blue-chip client base, a comprehensive software platform and deep sector expertise, we have a unique opportunity to advance our category leader status. Strategically, now is the time to accelerate investment and solidify our leadership position. Once again, we have ambitious plans, many of which depend on bringing in the right people in the coming year. Recent improvements to our hiring practices are leading to rising traction with recruitment. Visibility already stands at $20.6m and our sales pipeline includes a number of large opportunities; furthermore, in parallel with organic investments, we will continue to assess corporate paths to accelerate our progress. In this respect, as well as driving partnerships and reassessing our SaaS strategy, we remain open to M&A opportunities, provided they align with our strategic priorities. I would like to close this statement by announcing a proposal to increase our dividend from 2.5p to 3.25 p per share, which we will put to shareholders at the next annual general meeting. I am delighted to be following through on the commitment made last year to maintain a progressive dividend policy, which the board believes underlines our maturity as a business.

[1] *EBITDA is defined and reconciled in Note 5 to this report.*

[2] *Revenue visibility comprises revenue expected 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, SaaS and rental streams. The visibility calculation does not include revenues from new sales opportunities expected to close during the remainder of the year.*

STRATEGY AND MARKET

Sopheon's mission is to help our customers achieve exceptional long-term growth and profitability through sustainable innovation. We do this by digitalizing enterprise innovation with software, services and best practices that help companies operate with success. Our solutions connect people, systems and information, helping companies better execute on business strategy and improve the return on their investments into initiatives such as transformational change, enterprise innovation, product development, supply chain efficiencies and cost reduction. These solutions are designed to keep strategy visible and continuously aligned with operational execution throughout the initiative life cycle, ensuring long-term market success. The transparency and insight they provide support speed, agility and adaptability – all critical enterprise capabilities in the digital era – and enable decision-making that drives better business outcomes.

Learnings from 2018

1. **Our vision is solid**. Sopheon's historical mission continues to be very relevant to senior leadership and board level executives in our target markets.
2. **Accolade is an adaptable platform**. During the course of the year we learned that our Accolade platform is used as a solution for 14 different business applications, each offering a distinct value proposition.
3. **New and unique differentiation**. Accolade, while a very advanced offering satisfying the IT architecture, governance and complex access control needs of global companies, is at the same time providing a consumer-grade user experience.
4. **Beyond product to mission critical**. A number of clients have begun to use Accolade to improve alignment, visibility and transparency between corporate strategic initiatives and the operational execution activities, turning Accolade into a more strategic enterprise platform; we will embrace this movement and invest to make Accolade a mission-critical enterprise pillar.
5. **New client acquisition is scalable**. We increased new client acquisition through more targeted marketing and additional investment into sales efforts. The rise in new client acquisition is also a sign of business momentum, market reputation and growing market need.
6. **Innovation ecosystems are maturing**. We are on the front end of understanding how Accolade can operate as a common governance system for business partner ecosystems.

Tapping into Digital Transformation

Research shows that over 40% of companies on the S&P 500 will no longer exist within 10 years due to their inability to operate with agility and speed in today's hyper paced changing markets. Executing on digital transformation strategies and initiatives is becoming an imperative for these organizations. This new emerging market represents considerable addressable target market size as a subset of the overall digital transformation market, estimated at $445 billion.

Many companies suffer from operating with outdated and "disconnected" tools in a market that is moving faster than they are, putting them at risk of finding themselves on the wrong side of what research refers to as a growing digital divide separating winners and losers.

Sopheon believes companies cannot implement strategic changes or pivots with speed – an ability required to win in today's fast-paced economy – without "connecting" strategic initiatives with operational work activities. We see this as a unique opportunity for Sopheon to digitalize corporate strategic initiatives, innovation investments and portfolios in a single platform creating a digital operating model designed to navigate the new world order of digital disruption.

Accolade digitalizes this emerging operating model enabling a CEO to achieve his or her strategic direction with a velocity that cannot be accomplished without the support of an enterprise innovation management platform.

Continued Industry Focus

We continued to concentrate on our core industries with the objective of growing market share where we hold preferred positions due to strong core competency in our product, best-practice content and expertise of our people. I am proud to share that 100% of our 2018 Net New sales came from our target verticals, proof of our team's dedication to executing on our strategy. In parallel, we are exploring additional industries for expansion. On the back of the success in signing market leader Denso and others in 2018, we will be investing in targeted marketing programs to the Automotive & Transportation sector in the coming years.

Client Partnership

Sopheon is extremely proud of the quality of our blue-chip customer base. Legendary brands to join the Sopheon fold during 2018 include The Nature's Bounty Company, The Hershey Company and Doosan Bobcat. These market leaders provide a strong revenue stream from ongoing maintenance renewals, plus the nature of the relationships offers huge potential for expanding our user base and application of our software into new areas of their business. The power of this customer base is made apparent by the number of new prospects proactively reaching out to Sopheon based on a referral from an existing Accolade user or when Accolade users change roles or change jobs and introduce us into their new company.

Sopheon's solutions have been implemented by over 250 customers with over 60,000 users in over 50 countries. Our client base of global innovation leaders has grown to be an additional differentiator for us as our clients increasingly benefit through collaboration, sharing and learning across this ecosystem. This value is shared by longstanding clients and new clients coming into the Sopheon network alike.

Product Competency

We continue to leverage our strength in product development process automation that underpinned our initial product offering when Sopheon was established. We have since expanded our specialization to the portfolio management market and have more recently stepped into a broader enterprise solution to support the execution of corporate strategy. We are unique in our ability to link corporate strategic initiatives with operational execution activity for transparency and visibility. It is this ability, in combination with Accolade's deepening capabilities with each product release in curating data, managing business processes, and providing insights and reporting, that has our clients increasingly describing Accolade as being a mission critical system for them.

Sopheon's product team has moved our product forward greatly, updating legacy technology while making strategic advancements that will provide market differentiation well into the future. Our solution is unique in its end-to-end support of the innovation lifecycle, and its configurability that enables support for such a broad range of tangential business processes and use cases. We continue to maintain a regular release cadence. Accolade 12.0, released in March 2018, provided deeper connection and transparency between decision making and knowledge work, making it easier and quicker to make the best decisions and get work done and helping organization to be more agile and adaptable in a hyper-competitive market. Accolade 12.1, released in August 2018, boosted time-to-insights and reporting efficiencies.

Market Coverage

Sopheon continued to enjoy increased coverage in industry research by respected business analysts, with mentions in 22 reports in 2018. We were recognized in five of Gartner's Market Guides for strategy and innovation markets, as well as its Magic Quadrant for Project Portfolio Management; on the back of being named a Leader in the Forrester Wave™ for Strategic Portfolio Management in 2017, we continue to be named in research reports by Forrester Research in the strategic portfolio management arena. We are experiencing a clear correlation between this coverage and increased inbound demand for our solutions from prospects via our website and other venues.

Culture and People

As a company, and as individuals, we value integrity, honesty, openness, personal excellence, continual self-improvement, and mutual respect. These core values contribute to a culture that sets us apart. At a time when technology companies are experiencing unprecedented turnover, Sopheon is proud of our employee retention of over 90 percent. The large number of employees whose tenure is 10 years or longer contributes in a unique and critical way to instilling our cultural values into the mentoring of new Sopheonites as they undergo on-boarding.

We have long-term partnerships with some of the most admired innovators and domain experts in the world. This has provided us the opportunity to learn, invest and continue to serve the needs of such market leaders. It is this foundational expertise that has differentiated Sopheon from others in the market. Our clients tell us our people are caring, give them high marks for domain knowledge and commitment to their success.

As we continue to grow and expand our teams, we are taking measures to infuse both our culture and our domain experience into how we work. We have kicked off a structured Value Assurance Approach (VAA) program, "packaging" best practices from client engagements into our consulting methodology. The VAA will introduce new efficiencies and time to value for our clients by leveraging accumulated learnings from working with clients. The VAA will enable all new Sopheonites to learn more quickly from our historical experience and impart that knowledge to our growing client base.

Growth Strategy

We are confident that our fundamental corporate Mission, Vision and Strategy have us on the right path. Our growth strategy has not wavered, and we continue to be focused on the same four cornerstones that have delivered our recent growth:

Leverage blue chip references to extend Accolade as the digital platform of choice to digitalize corporate strategy and operational execution. Sopheon's roster of customer names is a Who's Who of the world's leading companies. We will continue to partner tightly with our clients to gain insights and learnings to drive further advancement and development in the Enterprise Innovation Management market. We believe our Accolade platform extension strategy represents a significant growth opportunity. In addition, the pace of technology disruption in today's market requires companies to be able to make strategic and often transformational pivots with speed. We call this capability "enterprise adaptability." Our clients are increasingly using Accolade as the platform to enable these shifts and we believe this trend will continue. We therefore anticipate further enterprise adaptability expansion in the future.

Generate faster Net New logo growth in target industries through deeper specialization and domain-specific expertise. We have always believed that different vertical markets, while sharing core functionality needs, have specific pain points and best-practice needs. We will continue to focus our efforts on dominating our chosen core vertical markets of chemicals, aerospace, consumer products, food and beverage, and high technology. Sopheon's long history and experience in these verticals allows us to operate as an industry connector for our clients, introducing them to one another to jointly learn and advance their competency and success. We will continue to invest in industry- specific expertise and solutions. Last year our exploration in the automotive and transportation industry provided favorable results leading to the addition of this vertical as a core industry in which we will invest to gain market share. We will continue to explore additional verticals in 2019.

Multiply our growth through developing and monetizing an Accolade ecosystem of distribution partnerships – channel, strategic and geographical. Our ecosystem has now matured to where it makes sense to invest time in the development of a network of partner relationships to expand the growth rate of the business. Last year we produced new sales through partnership with both management consulting companies as well as further development of our emerging reseller network. Our partner development strategy calls for several varieties of partners, including expanded distribution beyond our geographic reach with our own direct team; consulting partners operating in the Enterprise Innovation Management space who can both introduce and leverage our solution; and strategic partners who have created great innovation intellectual property (IP) and are looking for a platform to take it to the broader markets.

Engage in M&A only if it propels the speed and competency for Sopheon to achieve the above.

FINANCIAL REVIEW

In 2018 we reported a 19 percent increase in consolidated turnover to $33.9m, up from $28.5m in 2017. Around half of the rise can be attributed to software related revenues – licenses and maintenance – with the other half being service related, being implementations and hosting.

Trading

With respect to the license activity, larger deal size was the key driver of the increase, with a total license transaction count including extension orders of 57 compared to 59 in 2017. This is good evidence of our migration towards more enterprise deals, given that 2017 had already benefited from two very substantial sales. Underlining the increasingly enterprise-oriented nature of our business, it is striking that over the past five years 31 customers have each delivered over $1m in revenue to Sopheon.

Of the 57 transactions last year, 18 were new customers, a 39% increase over the 13 booked in 2017. Both maintenance and services rose well, driven by delivery both of the business sold in the preceding year and new deals signed in 2018. Our services revenues now exceed $10m revenue, a milestone for any consultancy business. Our hosting revenues showed particular strength as further detailed below. A breakdown of revenue in each year is given in Note 4 of the financial statements.

It has become typical in our business to have a very strong fourth quarter, which can lead to a lot of activity at the end of the year; however, in 2018 we were fortunate in having a number of substantial transactions complete at the end of the third quarter and accordingly this proved to be our strongest quarter last year. The overall calendarization pattern broadly held in 2018, with the second half of the year accounting for 53 percent of revenues (2017: 55 percent and 2016: 51 percent). Over the years, we have frequently referred to the sensitivity of our results to individual license sales and while this effect is reducing as we grow the business, it does remain a factor to bear in mind while we continue to operate with a largely perpetual license model – something we are looking at strategically, as noted in the Chairman's Statement. The seasonal profile of our services business is less predictable as it is linked to timing of preceding license sales and the individual scale of implementation projects, which can vary tremendously depending on the maturity of each customer. Maintenance and hosting revenue elements are more evenly spread as would be expected from their accounting treatment.

2017 featured a particularly strong year for our European business, with almost 39 percent of total revenues. As detailed in Note 3, both the Americas and Europe grew revenues further in 2018 – indicative of the rising momentum across our developed markets – but the emphasis shifted back to North America somewhat at 64 percent (2017: 61 percent).

Coming into 2019 and following some early sales bookings at the start of the year, revenue visibility for the year already stands at $20.6m compared to $19.3m at this time a year ago.

Gross margin was 71 percent, compared to 73 percent in 2017 but ahead of the 70 percent achieved in 2016. Both 2018 and 2016 had greater services intensity, which can have a small impact on margins; costs of the professional services organization are included in costs of sales, alongside the costs of our hosting activities, license royalties for OEM partners and certain indirect taxes. We expanded services resources again last year, as well as adding new leadership, resulting in higher payroll and subcontracting costs in this area. We believe that a strong services capability is also key to long-term success and win rate, and we will continue to recruit in this area as the business expands while also ensuring that we make limited use of flexible subcontracted resources as appropriate.

Recurring Revenue

As noted in the Chairman's Statement we recognize that recurring revenue is both fundamental to our long-term growth and important to the investor community, and we are actively considering ways to further enhance the recurring profile of the business. The Group's base of recurring business rose to $15m at the end of 2018, compared to $12m the year before. Maintenance alone has a run rate of $12m, with an additional $1.5m each in hosting services and Software as a Service (SaaS) subscriptions. The majority of our license revenue continues to remain perpetual in nature, but we continue to see growing interest in SaaS options. During 2018 we signed five new SaaS deals compared to three the year before, demonstrating growing traction in this important area of corporate development. We are also seeing further take-up of our hosting service from new and existing perpetual customers, and we continue to extend the scope of our security infrastructure to ensure this service remains an attractive proposition. Over a quarter of our active perpetual customers are hosted by Sopheon. Overall retention of recurring revenue increased to 97 percent by value (2017: 95 percent). In this regard we continue to invest in customer satisfaction programs alongside regular service and account management processes to maximize value for our customers.

Complementing our focus on recurring revenue, our strong customer relationships are key to the stability and potential of our business as we extend our footprint in each customer in line with our strategic goals described in the Strategy and Market Review above. In this respect I have already commented on the increasingly enterprise oriented nature of our business leading to serious revenue generation from a wide range of customers; also of note is the fact that 73 percent of our revenues were from existing customers last year (2017: 69 percent).

Research and Development Expenditure

Overall expenditure in product development increased by approximately $0.9m to $5.5m in 2018. These amounts can be compared to the headline research and development reported in the income statement showing an increase from $4.3m to $5.1m; the differences are due to the effects of capitalization and amortization of development costs. The additional spend reflects the recruitment of additional development resources during the year including design, architecture and coding expertise and this has resulted in a greater level of investment in line with Sopheon's product roadmap as described elsewhere in this report – an expansion we first started in 2017. We had in fact decided to accelerate hiring in this area in 2018; as noted elsewhere there is a tight market in particular for US software engineers. Accordingly, our costs in this area were somewhat lower than expected, contributing to the strong profit performance in the year. We have modified our recruitment practices in this area and are now seeing rising traction with bringing on new skilled people. Overall, the amount of 2018 research and development expenditure that met the criteria of IAS38 for capitalization was $2.6m (2017: $2.5m) offset by amortization charges of $2.2m (2016: $2.2m). These capitalized costs are largely attributable to the Group's investment in the Accolade 12.0, 12.1, and 12.2 releases.

Other Operating Costs

Like any other software and services business, over three quarters of Sopheon's costs are payroll and related costs. Sopheon has a relatively mature and highly-qualified blend of staff, reflecting the professional and intellectual demands of our chosen market. Furthermore, we have made a strategic decision to onshore our development team as we believe that until a certain scale is reached, the cost benefits of offshoring are outweighed by management and productivity concerns. Our focus remains on securing the right mix of people rather than targeting a headcount number; however, as revenue growth has progressed, since 2016 we have steadily expanded staffing, ending 2018 with 147 staff. As indicated above, we had intended to accelerate recruitment last year, and we continue to target a large number of hires into 2019 to support the growth and strategic trajectory of the business.

The average headcount during 2018 was 142, compared to 125 the year before, leading to higher overall wage costs as reported in Note 7 of the financial statements. Payroll costs also include the cost of our corporate bonus scheme, for which all non-sales staff in the Group are eligible. The bonus is linked to the achievement of our annual EBITDA goals and is paid in the following year. Bonus costs in a given year are allocated to the relevant categories of the income statement based on employee department.

Specific comments regarding service operations and research and development costs are noted above. Overall costs in the sales and marketing area increased by approximately $0.8m. Most of this increase was attributable to additional staff, with a third linked to higher commission and incentive payments linked to higher revenue. As with other areas, we are looking to expand these teams further during 2019.

Headline administration costs have risen by approximately $0.6m. This area includes all other overheads, office costs, regulatory and compliance costs, and depreciation – several of which expanded to keep pace with our growth. It also includes the impact of the notional charge for share option grants, which is allocated entirely to this caption and has increased with the rising share price.

With regard to foreign exchange, excluding the impact of one-off events such as the UK referendum in 2016, the Group aims to incorporate a natural hedge through broadly matching revenues and costs within common currency entities, reducing the need for active currency management. In addition, it is not the Group’s policy to hedge currency cash holdings, but we do look to keep cash balances in local currency within an entity and to time currency purchases so as to minimize impacts on the individual income statements.

Results

EBITDA (Earnings before Interest, Tax, Depreciation and Amortization) is a key indicator of the underlying performance of our business, commonly used in the technology sector. EBITDA is further defined and reconciled to profit before tax in Note 5. The combined effect of the revenue and cost performance discussed above has resulted in Sopheon’s EBITDA performance for 2018 rising strongly again, to $8.9m, from $8.0m in 2017 and $5.6m in 2016.

As further described below, during the year the Group had facilities with Silicon Valley Bank but these were largely undrawn, resulting in a low finance expense compared to previous years. In previous years the Group had convertible unsecured loan stock, which was converted into equity in December 2017, a transaction that included a compensatory payment of interest resulting in a total interest charge in 2017 of $0.5m compared to $0.1m in 2018. Furthermore, as dollar interest rates started to rise we were able to capture around $0.1m of interest income in 2018 compared to a negligible amount the year before. These positive changes in the funding structure of the business means that profit before tax has shown an even stronger improvement year on year, coming in at $6.4m (2017: $5.1m).

The net tax credit of $0.5m (2017: $0.2m) reported in the income statement is made up of three elements. First, although Sopheon benefits from accumulated tax losses in a number of jurisdictions this is not universal and accordingly a current tax charge of approximately $0.2m was incurred in 2018 (2017: $0.4m) of which a third arose in Germany and the balance were state taxes in the United States. Second, due to the rising profit trend of the Group, in 2016 we started recognition of the substantial deferred tax asset owned by the business and, as further detailed in Note 10, we have extended the scope of that recognition in subsequent years resulting in added recognition of a further $0.5m (2017: $0.7m) in 2018, of a total potential asset of approximately $13m. Finally, following reforms of the corporate alternative minimum tax (AMT) regime in the USA, the Group is entitled to a refund of AMT paid in previous years leading to recognition of a $0.2m credit.

Altogether this leads to a profit after tax rising to $6.9m (2017: $5.4m). Profit per ordinary share on a fully diluted basis has also risen to 65 cents (2017: 56 cents).

Dividend

Following another successful year, the board is pleased to continue Sopheon’s progressive dividend policy and proposes a dividend of 3.25 pence per share for the year ended 31 December 2018 (2017: 2.5p). Subject to approval by the Company’s shareholders at the annual general meeting scheduled for 13 June 2019, the dividend will be paid on 12 July 2019 with an ex-dividend date of 13 June 2019.

Facilities and Assets

Several years ago the Group established bank facilities with the London branch of Silicon Valley Bank, comprising a term loan of $0.5m and a $3m revolving line of credit, and these currently extend through April this year, with renewal being negotiated as we go to press. Both facilities bear interest at rates of 2.75 percent over the Wall Street Prime rate, resulting in a current effective rate of 8.25 percent, rates that are expected to improve substantially upon renewal. The facilities, drawdown mechanics and interest rates are subject to covenants based on working capital ratios. Although there is no immediate requirement for these facilities, we view our developing relationship with Silicon Valley Bank as an important one for the future.

In 2009 and 2011, the Company issued a total of £2m of convertible unsecured loan stock ("Loan Stock") to a group of investors including members of the board and senior management team. The Loan Stock, which had been due to mature on 31 January 2019, was in fact fully converted the end of 2017, resulting in the issue of approximately 2.5m new Ordinary Shares. This change improved the profile of the Group's balance sheet and simplified the capital structure, as well as eliminating a major element of our interest charges.

Intangible assets stood at $6.2m (2017: $5.8m) at the end of the year. This includes (i) $5.2m being the net book value of capitalized research and development (2017: $4.8m) and (ii) an additional $1.0m (2017: $1.0m) being goodwill arising on acquisitions completed in previous years. As shown above in our discussion of research and development costs, capitalization and amortization have been broadly in balance for a number of years. Our spend on tangible fixed assets is increasing in line with staffing and revenues, and this resulted in net book value rising to $0.5m at the end of the year (2017: $0.4m).

Consolidated net assets at the end of the year stood at $25.6m (2017: $18.6m), an increase of $7m. Around $5.5m of this increase is attributable to an improvement in the net current asset position, on the back of another year of strong operational performance. A further $0.2m relates to the elimination of long-term debt, $0.7m to the increased recognition of the deferred tax asset and AMT credit, with the remaining $0.5m due to the increase in tangible and intangible fixed assets. Within the net current asset position, gross cash resources at 31 December 2018 amounted to $17.1m (2017: $12.7m). Approximately $7.4m was held in US Dollars, $8.0m in Euros and $1.7m in Sterling. Net cash, stated after subtracting debt, rose from $9.5m the previous year to $16.7m at the end of 2018.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 *$'000*	*2017* *$'000*
Revenue	**33,922**	**28,534**
Cost of sales	(9,916)	(7,591)
Gross profit	**24,006**	**20,943**
Sales and marketing expense	(8,552)	(7,730)
Research and development expense	(5,078)	(4,266)
Administrative expense	(3,995)	(3,350)
Operating profit	**6,381**	**5,597**
Finance income	102	6
Finance expense	(77)	(468)
Profit before tax	**6,406**	**5,135**
Income tax credit/(expense)	514	243
Profit for the year	**6,920**	**5,378**
Earnings per share - basic	68.60c	71.92c
Earnings per share - diluted	64.98c	55.92c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 *$'000*	*2017* *$'000*
Profit for the year	**6,920**	**5,378**
Other comprehensive expense		
Exchange differences on translation of foreign operations	(314)	31
Total comprehensive income for the year	**6,606**	**5,409**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

	2018 *$'000*	*2017* *$'000*
Assets		
Non-current assets		
Property, plant and equipment	532	417
Intangible assets	6,206	5,821
Deferred tax asset	2,557	2,010
Other receivables	227	19
	9,522	**8,267**
Current assets		
Trade and other receivables	13,997	15,387
Cash and cash equivalents	17,086	12,729
	31,083	**28,116**
Total assets	**40,605**	**36,383**
Liabilities		
Current liabilities		
Trade and other payables	5,621	6,239
Borrowings	355	3,171
Deferred revenue	9,035	8,345
	15,011	**17,755**
Non-current liabilities		
Borrowings	-	28
Total liabilities	**15,011**	**17,783**
Net assets	**25,594**	**18,600**
Equity		
Share capital	3,118	3,079
Capital reserves	8,277	7,720
Profit and loss account and translation reserve	14,199	7,801
Total equity	**25,594**	**18,600**

CONSOLIDATED CONDENSED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 *$'000*	*2017* *$'000*
Operating activities		
Profit for the year	6,920	5,378
Adjustments for non-cash and financing items	2,259	2,336
Movements in working capital	1,493	(2,048)
Net cash generated from operating activities	10,672	5,666
Investing activities		
Finance income	102	6
Purchases of property, plant and equipment	(420)	(367)
Development costs capitalized	(2,615)	(2,519)
Net cash used in investing activities	(2,933)	(2,880)
Financing activities		
Issue of shares	213	34
(Repayment)/drawdown of borrowings	(170)	(168)
Movement in lines of credit	(2,674)	-
Finance expense	(77)	(261)
Dividends paid	(337)	-
Net cash (used in)/generated from financing activities	(3,045)	(395)
Effect of foreign exchange rate changes	(337)	277
Net increase in cash and cash equivalents	**4,357**	**2,668**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2018

	Share Capital $'000	*Capital Reserves $'000*	*Translation Reserve $'000*	*Retained Profits $'000*	*Total $'000*
At 1 January 2017	**2,375**	**5,843**	**333**	**1,806**	**10,357**
Total comprehensive income for the year	-	-	31	5,378	5,409
Issue of shares	704	1,986	-	-	2,690
Share-based payments	-	(109)	-	253	144
At 1 January 2018	**3,079**	**7,720**	**364**	**7,437**	**18,600**
Total comprehensive income for the year	-	-	(314)	6,920	6,606
Issue of shares	39	174	-	-	213
Share-based payments	-	383	-	129	512
Dividends paid	-	-	-	(337)	(337)
At 31 December 2018	**3,118**	**8,277**	**50**	**14,149**	**25,594**

NOTES

1. Basis of Preparation

The financial information set out in this document does not constitute the Company's statutory accounts for the years ended 31 December 2017 or 2018. Statutory accounts for the years ended 31 December 2017 and 31 December 2018, which were approved by the directors on 20 March 2019, have been reported on by the Independent Auditors. The Independent Auditors' Reports on the Annual Report and Financial Statements for each of 2017 and 2018 were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

Statutory accounts for the year ended 31 December 2017 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2018 will be delivered to the Registrar in due course, and are available from the Company's registered office at Dorna House One, Guildford Road, West End, Surrey GU24 9PW and are available today from the Company's website www.sopheon.com.

The financial information set out in these results has been prepared using the recognition and measurement principles of International Accounting Standards, International Financial Reporting Standards and Interpretations adopted for use in the European Union (collectively Adopted IFRSs). The accounting policies adopted in these results have been consistently applied to all the years presented and are consistent with the policies used in the preparation of the financial statements for the year ended 31 December 2017, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2018. New standards impacting the Group that have be adopted in the annual financial statements for the year ended 31 December 2018 are IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from contracts with customers*. Other new standards, amendments and interpretations to existing standards, which have been adopted by the Group have not been listed, since they have no material impact on the financial statements.

Approximately two-thirds of the Group’s revenue and operating costs are denominated in US Dollars and accordingly the Group’s financial statements have been presented in US Dollars.

2. Going Concern

The 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 these financial statements. This assessment has included consideration of the forecast performance of the business for the foreseeable future, the cash and financing facilities available to the Group, and the repayment terms in respect of the Group’s borrowings.

3. Segmental Analysis

All of the Group’s revenue in respect of the years ended 31 December 2018 and 2017 derived from the design, development and marketing of software products with associated implementation and consultancy services, as more particularly described in the Directors’ Report. For management purposes, the Group is organized geographically across two principal operating segments. The first segment is North America, and the second Europe. Information relating to these two segments is given below.

NOTES

3. Segmental Analysis (continued)

The information in the following table relating to external revenues includes analysis both by location of customer and by location of operations. The information relating to other items provides analysis by location of operations only. Inter-segment revenues are priced on an arm's length basis.

Year ended 31 December 2018	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues – by location of operations	21,614	12,308	33,922
Operating profit before interest and tax	6,068	313	6,381
Profit before tax	6,100	306	6,406
Finance income	102	-	102
Finance expense	(70)	(7)	(77)
Depreciation and amortization	(2,464)	(63)	(2,527)
EBITDA	5,273	3,600	8,873
Balance Sheet			
Fixed asset additions	272	148	420
Capitalization of internally generated development costs	2,615	-	2,615
Total assets	26,246	14,359	40,605
Total liabilities	(10,041)	(4,970)	(15,011)

Year ended 31 December 2017	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues – by location of operations	17,274	11,260	28,534
Operating profit before interest and tax	5,133	464	5,597
Profit before tax	5,077	58	5,135
Finance income	6	-	6
Finance expense	(62)	(406)	(468)
Depreciation and amortization	(2,326)	(47)	(2,373)
EBITDA	7,459	511	7,970
Balance Sheet			
Fixed asset additions	254	112	366
Capitalization of internally generated development costs	2,519	-	2,519
Total assets	25,902	10,481	36,383
Total liabilities	(12,217)	(5,566)	(17,783)

Revenues attributable to customers in North America in 2018 amounted to $20,985,000 (2017: $16,697,000). Revenue attributable to customers in the rest of the world amounted to $12,937,000 (2017: $11,837,000) of which $11,555,000 (2017: $11,038,000) was attributable to customers in Europe.

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4. Revenue

All of the Group's revenue in respect of the years ended 31 December 2018 and 2017 derived from continuing operations and from the design, development and marketing of software products with associated implementation and consultancy services. The following table provides further disaggregation of revenue in accordance with the IFRS9 requirement to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	2018	*2017*
	$'000	*$'000*
Software licenses and subscriptions	10,391	9,332
Consulting and implementation services	10,770	8,869
Maintenance	10,822	9,159
Hosting	1,938	1,175
	33,922	28,534

In assessing sales of software licenses, the licensing application guidance in IFRS 15 is to determine whether the license grants customers a right to use the underlying intellectual property (which would result in transfer of control at a point in time) or a right to access the intellectual property (which would result in transfer of control over time). The directors have assessed that the methods currently used by the Group to determine whether significant obligations remain are consistent with these requirements. As regards maintenance, hosting and post-contract support agreements, as well as implementation and consultancy services and software-as-a-service contracts, the directors consider that these performance obligations are satisfied over time and that the methods previously used to measure progress continue to be appropriate. These are separate distinct performance obligations within each contract. In view of the above, the application of IFRS 15 has not had a significant effect on the reported financial performance of the Group. However, certain classification requirements of the standard have had an impact on the classification of receivables and payables as contract assets and contract liabilities.

5. EBITDA

The directors consider that EBITDA, which is defined as earnings before interest, tax, depreciation and amortization, is an important measure, since it is widely used by the investment community. It is calculated by adding back net interest receivable of $25,000 (2017: $462,000 net payable), and depreciation and amortization charges amounting to $2,527,000 (2017: $2,373,000) to the profit before tax of $6,406,000 (2017: $5,135,000).

6. Share-Based Payments

In accordance with *IFRS2 Share based Payments*, an option pricing model has been used to work out the fair value of share options granted by the Group, with this being charged to the income statement over the expected vesting period and leading to a charge of $512,000 (2017: $173,000).

7. Income Tax

The current tax expense represents German corporation tax payable by Sopheon GmbH and US state taxes payable by the Group's US subsidiaries. US corporate Alternative Minimum Tax (AMT) has been repealed in respect of tax years beginning on or after 1 January 2018. AMT paid by US corporations in respect of periods prior to that date will be refundable over a four year period to December 2021 and $0.2m in this regard is classified in other receivables.

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7. Income Tax (continued)

At 31 December 2018, tax losses estimated at $53m (2017: $63m) were available to carry forward by the Sopheon Group, arising from historic losses incurred. These losses have given rise to a deferred tax asset of $2.6m (2017: $2.0m) and a further potential deferred tax asset of $8.2m (2017: $10.9m), based on the tax rates currently applicable in the relevant tax jurisdictions. An aggregate $8.8m (2017: $9.0m) of these losses are subject to restriction under section 382 of the US Internal Revenue Code due to historical changes 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. Recent developments in US case law, as well as audits by authorities have highlighted the complex sales tax compliance requirements associated with individual US states. The Group is undertaking an exercise to review its procedures in this regard. Contractually, the Group's policy is to ensure that liability for sales tax is a customer liability.

8. Earnings per Share

The calculation of basic earnings per ordinary share is based on a profit of $6,920,000 (2017: $5,378,000), and on 10,088,000 (2017: 7,478,000) ordinary shares, being the weighted average number of ordinary shares in issue during the year. For the purpose of calculating diluted earnings per ordinary share, adjustments are made to both the profit and the number of ordinary shares to reflect the impact of options, warrants and convertible loan stock to the extent conversion or exercise prices are below the average market price for Sopheon shares during the year. These adjustments had no effect on the profit for 2018, but increased profit for the purposes of calculating diluted earnings per ordinary share to $5,777,000 for 2017, and to increase the number of ordinary shares to 10,649,000 (2017: 10,331,000).

9. Intangible Assets

In accordance with *IAS 38 Intangible Assets*, certain development expenditure must be capitalized and amortized based on detailed technical criteria, rather than automatically charging such costs in the income statement as they arise. This has led to the capitalization of $2,615,000 (2017: $2,519, 000), and amortization of $2,230,000 (2017: $2,167,000) during the year.

10. Cautionary Statement

Sopheon has made forward-looking statements in this press release, including statements about the market for and benefits of its products and services; financial results; product development plans; the potential benefits of business relationships with third parties and business strategies. These statements about future events are subject to risks and uncertainties that could cause Sopheon's actual results to differ materially from those that might be inferred from the forward-looking statements. Sopheon can make no assurance that any forward-looking statements will prove correct.

11. Annual Report

The annual report and financial statements are available on the Company's website www.sopheon.com.

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2015.