Embargoed Release: 07:00hrs Thursday 21 March 2019

SOPHEON PLC

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

AUDITED RESULTS STATEMENT FOR THE YEAR TO 31 DECEMBER 2019

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 2019, in line with market expectations, together with an outlook for the current year.

HIGHLIGHTS:

Revenue:	$30.3m	(2018: $33.9m)
Adjusted EBITDA[1]:	$6.4m	(2018: $9.4m)
PBT:	$2.5m	(2018: $6.4m)
Net cash:	$19.4m	(2018: $16.7m)
- Fourth quarter delivered 23 license transactions from annual total of 47 (2018:57) and 18 new customer wins (2018: 18).
- ARR rose from $14.8m at the start of 2019 to $15.9m at the end of the year. Full year 2020 revenue visibility[2] is now $21.2m (Last year at this time: $20.6m).
- Transition to a SaaS business has started and the proportion of such business in the pipeline is at 45 percent of total software related opportunity.
- Robust balance sheet and cash position. Dividend maintained at 3.25p per share (2018: 3.25p).

Barry Mence, Chairman, commented: *"It was good to see the inherent discipline in our business delivering another profitable and cash generative year, and our closing net asset and cash positions at historic highs. Consistent with our expectation after a slow first half, momentum rebounded sharply in the final quarter, which was one of the strongest on record for deal flow. Sopheon has a strong track record in a market that we believe is set to expand rapidly. Overall, coronavirus unknowns aside, we remain confident of growing commercial traction in the coming year. To underline this confidence, I am pleased to announce that in spite of a challenging year we are maintaining our dividend at 3.25p per share."*

FOR FURTHER INFORMATION CONTACT:

Barry Mence (Chairman) Arif Karimjee (CFO)	Sopheon plc	+ 44 (0) 1276 919 560
Carl Holmes/Giles Rolls (Corporate Finance) Alice Lane/Sunila de Silva (ECM)	finnCap Ltd	+ 44 (0) 20 7220 0500

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.

[1]Adjusted 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.

CHAIRMAN'S STATEMENT

After several years of continuous and strong financial growth, revenues paused somewhat, coming in at just over $30m. In view of this, it was good to see the inherent discipline in our business delivering another profitable and cash generative year, and our closing net asset and cash positions at historic highs. Consistent with our expectation after a slow first half momentum rebounded sharply in the final quarter, which was one of the strongest on record for deal flow.

We have previously communicated our perspective on the underlying reasons behind the pause – unexpected client personnel changes, customer scope expanding from point to enterprise solution and ramp-up time of our newer sales resources. These same circumstances, however, have also contributed to a substantially larger sales pipeline, up 50% year on year. On the whole deals have not gone away, but have been deferred. We saw some signs of customer hesitation due to economic factors, but we do not attribute this as a key contributor. Indeed, behind the headline financials, we signed the same number of new customers – 18 – as in the year before.

Our business strategy continued to focus on the same three themes as in the past – leveraging our tremendous roster of blue-chip customers, winning new customers through strict vertical focus and developing a distribution ecosystem. To this we have added a commitment to transition our software revenue and delivery model from one that is predominantly perpetual and on-premise to one that is primarily based on software as a service ("SaaS"). Our goals are to transition to a revenue model that drives higher recurring revenue and brings greater stability to the financial results, while also meeting a growing customer preference that has taken time to filter through to our market. We referred to this shift in our 2018 annual report, and over the course of last year transformation to a cloud business has become a key internal driver of change. We have revised our standard pricing models, service delivery models and commission plans, and a longer-term migration of the software platform is underway. Industry experience tells us that the conversion to SaaS will take a number of years. It also means that, going forward, annual recurring revenue ("ARR") will be a key performance indicator alongside annual revenue. Overall, ARR including maintenance and SaaS stood at $15.9m coming into 2020, compared to $14.8m coming into 2019. Adding closed business since year end and the consulting backlog takes overall revenue visibility for 2020 to $21.2m at the time of this report, compared to $20.6m a year ago. In this regard, in future we expect to focus increasingly on ARR rather than visibility as a metric of progress.

Companies need solutions to help them deal with the new reality of constant disruption, and to manage it through digital transformation. Last year I described the broadening of our mission from one that helps R&D organizations to improve innovation, to one that helps major enterprises achieve their strategic goals through innovation. I also said that the extension of our vision had the potential to be a third major pillar of the enterprise stack, alongside ERP and CRM, and that this dramatically expands our horizons and potential. This perspective remains entirely consistent with current market realities. As detailed later, we have also taken positive steps to prepare the business to operate virtually and effectively in the new global circumstances presented by the coronavirus crisis.

Outlook

Sopheon has a strong track record in a market that we believe is set to expand rapidly. Customer satisfaction is high – at the time of our Accolade 13.0 release in November 2019, over 90 percent of our customers were on a supported release of the software; and we achieved a record net promoter score in 2019 of 40, considered high for a B2B business. Broader recognition has been forthcoming from Gartner and others, and we were particularly pleased that Sopheon won the best performing company slot in the enterprise software category of Megabuyte's Quoted25 awards, announced in January 2020. Continued investment will be called for as we look to accelerate progress and solidify our leadership position. Overall, coronavirus unknowns aside, we remain confident of growing commercial traction in the coming year; our very strong balance sheet also gives us the comfort to press on. To underline this confidence, I am pleased to announce that in spite of a challenging year we are maintaining our dividend at 3.25p per share.

STRATEGY AND MARKET

Sopheon was founded with a mission to provide our customers with world-class solutions to aid them in achieving exceptional long-term growth and profitability through sustainable innovation. Our Accolade solution, comprised of software, services and best practices, is designed to keep strategy visible and continuously aligned with operational execution throughout the life cycle of initiatives. By increasing connection of people, transparency to information and surfacing actionable insights, they support speed, agility and adaptability – all critical enterprise capabilities in the digital era – and enable decision-making that drives better business outcomes.

Learnings from 2019

- **The market is ready for Cloud.** The time is right for Sopheon to start making the shift towards becoming a cloud company. During the year we saw unexpectedly strong drive and desire from our customers for adopting cloud technologies and SaaS solutions. This allows us to increase our own innovation velocity and speed to market and lower the overhead cost to develop and maintain our solutions by leveraging best in class cloud technologies and capabilities. Shifting Accolade to the cloud will make ecosystem innovation a reality for our customers.

- **Adaptiveness is a key capability**. In 2018 we shared our success in Accolade's role as an enterprise platform supporting multiple needs relating to product as well as broader business model innovation. In 2019 we continued to be pulled by clients to introduce even more flexibility and configurability into our product to allow them to meet unique business needs while easing system updates and deployments. As a result, we invested heavily in this area last year and will continue to enhance this area of the product while also simplifying the user experience of our configuration capabilities.

- **New client acquisition best practices.** In 2019 we matched the record client acquisition of the previous year by signing an additional 18 new clients. We did, however, experience extended client buying cycles at times, in part due to the increasing range of business solutions supported by the Accolade software. A consequence of broadening the scope of the value we offered was the introduction of new business groups and buying personas into the buying decision. This resulted in additional cycles and lengthened the decision-making process. We learned from this experience to phase our selling efforts, limiting the initial sale to a single solution that addresses the client's most urgent need, and then expanding our value proposition following the initial deployment.

- **Global disruption drivers.** Last year many of our clients were disrupted by global economic factors such as trade talks and Brexit. Such unanticipated disruption requires companies to move with speed to reprioritize strategic initiatives, make changes to their supply chain or revisit their product portfolio strategy. Accolade offers visibility and speed to decisions in such times of crisis. Clearly the world is now being hit by a new, unexpected and massive crisis with the coronavirus. At the time of writing, Sopheon has already taken prompt action to ensure the health and safety of staff, introducing an immediate work from home policy and travel restriction supported by well-defined virtual working practices, and also to assure continuity of business operations and cloud services through our co-location and Azure based infrastructure.

- **Innovation ecosystem expansion.** In 2019 we expanded the geographic reach of Accolade solutions with signatures of Akdeniz Kimya in Turkey, Global Chemicals in Thailand, and Nippon Paint in Japan. All these new customers approached us as the result of recommendations within their ecosystem or relationships with industry peers. This was a satisfying expansion beyond our traditional successes from past years in Europe and North America.

Growth Strategy

Our growth strategy has not wavered, and we continue to be focused on the same four cornerstones that have delivered our recent growth:

1. **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. Our customers are a key voice directly into our cloud, ecosystem and product roadmap strategies. We will continue to partner closely with our clients and our client ecosystem to gain insights and learnings that drive further advancement and development in the consistently changing Enterprise Innovation Management market. We believe our Accolade platform extension strategy represents a significant growth opportunity. We continued to invest in "enterprise adaptability" last year to meet the needs of some of our forward-thinking customers. 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.

2. **Generate faster Net New logo growth in target industries through deeper specialization and domain-specific expertise.** We will continue to focus our efforts on dominating our chosen core vertical markets of chemicals, aerospace, consumer products, food and beverage, automotive/transportation 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 for mutual learning and to advance their competency and success. We will continue to invest in industry-specific expertise and solutions.

3. **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 made progress with the signing of new clients in Turkey, Japan and Thailand, most of which was through our reseller channel. In 2020 we expect to expand our consulting partner ecosystem in both the EU and the United States.

4. **Engage in M&A only if it propels the speed and competency for Sopheon to achieve 1, 2 or 3 above.**

To these we have now added a new and fifth strategy:

5. **Transformation to a cloud business**. The benefits of moving our revenue model to one which is subscription based and of focusing our product innovation on solutions that are designed to be run in the cloud are material. This transformation will not happen overnight, yet when completed successfully will allow Sopheon to innovate more quickly, shorten the time it takes to acquire new customers, improve business predictability (through reducing license spikes and troughs, guaranteeing recurring revenue and guaranteeing paid support), further improve the scalability and performance of our software, and reduce the cost of service delivery. In addition, we will also be better meeting our customer preference for greater flexibility and alignment of their investment with consumption of the software.

Immediate Market Opportunities

Tap into disruption.

Today's business climate is characterized by disruption. This is no ordinary business cycle, but rather one that requires a fundamental transformation by businesses of all sizes and across all industries to operate with more agility and responsiveness. Organizations that are unable to master this transition will not survive.

The key driver of this disruption and resulting "digital revolution" is the changing expectation of customers in the way they *choose*, *buy*, *obtain* and *use* products. Simply put, product innovation is at the heart of digital transformation and is, now more than ever, critical for business survival.

Product Innovation

Our addressable market is defined as a subset of several distinct product markets including project and portfolio management, strategic planning and innovation management. The overall project and portfolio management market by itself is estimated at $3 billion in 2018 and grew at 14.1% over the prior year.[1]

The broad applicability of our solution is evidenced by the addition in 2019 of new customers in food and beverage, consumer goods, chemicals and industrial manufacturing industries. In addition, our vision and ability to execute is noted by leading analyst group Gartner in their 2019 Magic Quadrant for Project & Portfolio Management, 2019 Market Guide for Strategy and Innovation Roadmapping Tools, 2019 Market Guide for Innovation Management and 2019 Market Guide for Strategy Execution Management Software.

Sopheon customers report the following value from digitalizing their innovation processes with Accolade:

- Increase portfolio value by 75-100%
- Reduce time to market by 15-30%
- Increase product/initiative success by up to 50%
- Reduce costs by 10-20%

Business Innovation and Digital Transformation

As a leader in product innovation solutions, Sopheon is ideally positioned to help organizations deliver the new products and associated business innovation that will achieve digital transformation and the resulting new experiences demanded by their customers.

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, which is estimated to exceed $2 trillion by 2025.[2]

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 help organizations meet the challenge 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.

In 2019, we continued to see the role of Accolade expand to support these strategic transformation initiatives spanning supply chain, digital/physical product innovation, and more. Our strengths in this area are also recognized by Gartner in their 2019 Market Guide for Strategy Execution Management Software, 2019 Market Guide for Strategy and Innovation Roadmapping Tools, and 2019 Market Guide for Technologies Supporting DTO (Digital Twin of the Organization).

Increase market share in core verticals.

We have continued to concentrate on our core industries with the objective of growing market share where we hold preferred positions due to strong competency in our product, best-practice content and expertise of our people. I am proud to share that all but one of our new sales in 2019 came from these core verticals, proof of our team's dedication to executing on our strategy. Despite the success in this area, we have not fully captured the share of these markets and will therefore be investing efforts to do so. In parallel, we continue to test additional industries for expansion such as the automotive and transportation sectors.

[1] *Gartner, "Market Share: Enterprise Application Software, Worldwide, 2018"*
[2] *Research and Markets, Digital Transformation Market to 2025"*

FINANCIAL REVIEW

As highlighted in the Chairman's Statement, financial performance during 2019 showed a pause after many years of solid growth. Consolidated revenue came in at $30.3m compared to $33.9m in 2018. Approximately $0.5m of this can be attributed to a stronger dollar than the year before, but clearly this was not the major factor.

Trading Performance

For additional context, revenue in 2017 was $28.5m, emphasizing the relatively lumpy revenue profile that is a consequence of our historically perpetual-oriented license model. In this regard, transactional revenue was the main cause of the gap, with perpetual licenses coming in at $5.4m compared to $8.9m the year before, and consulting services at $9.4m compared to $10.8m the previous year. Revenue recognized from recurring relationships – maintenance, hosting and SaaS – rose to $15.5m from $14.2m in 2018. License order volume (including SaaS deals) was decent at 47 license transactions; although this was below the 57 achieved in 2018, the entire difference in this count was due to the slower first half – and in fact 23 deals were signed in November and December alone. New customer acquisition held steady at 18, the same as 2018 and up from 13 in 2017.

A lower average perpetual deal value also affected the final revenue figure; in the prior year we had five license orders above $0.5m in perpetual license value of which two were over $1m, one considerably so; in 2019 there were three over $0.5m, and none that exceeded $1m, though one came close. As we note elsewhere, the sales funnel does include several larger opportunities; accordingly, we believe the impact on performance is a timing issue largely due to deferred deals. In some cases, Sopheon had already been selected as preferred vendor. As we've noted before, the reasons for the extended buying cycles vary. Several were due to customer specific factors such as M&A, personnel changes or budget consideration impacting decision making. In other cases, extra effort and decision cycles linked to a broader evaluation of Accolade as a platform purchase for the customer may have contributed; we are refining our sales approach to minimize such delays. In addition, we had hired a number of new enterprise tier sales representatives, who while building pipeline have not yet contributed materially to bookings.

SaaS and ARR

Although nine of the license orders signed last year were SaaS orders and we are seeing a clear acceleration of SaaS value in our pipeline, the total value of new SaaS business booked was of a similar magnitude in 2019 as in 2018. The value of new SaaS signings was offset in the second half by a major existing SaaS customer converting its license to perpetual, in conjunction with a large expansion of their license footprint. While delighted with their vote of confidence in our platform, we note that this did not assist the overall ARR position. Two other factors affected ARR growth – lower perpetual license revenues resulted in lower incremental maintenance, and recurring revenue attrition was approximately 6 percent compared to 3 percent in 2018, calculated on a gross basis. The combined effect was to limit the rise in recurring revenue to $15.9m, up from $14.8m at the start of the year. We do not believe these factors are symptomatic of a larger trend. For example, attrition is typically due to factors outside our control such as M&A and corporate reorganizations. Our customer base is generally happy, with our net promoter ("NPS") surveys recording an overall NPS score of 40 compared to 36 in 2018, a very creditable score for a business solution. While we have highlighted 18 new customers, it is important to note that 29 existing customers also signed license extension orders during the year.

Seasonality and Geography

The overall calendarization pattern broadly held to past experience with the second half of the year accounting for 55 percent of revenues (2018: 53 percent and 2017: 56 percent). As previously noted, the seasonal profile of our consulting business is less predictable as it is linked to timing of preceding license sales and the individual scale of implementation projects, which can vary depending on the maturity of each customer. Maintenance and hosting revenue elements are more evenly spread as would be expected from their accounting treatment.

The geographical footprint of the new customers we signed was balanced and global in nature, with signings in Thailand, Canada, Latin America, Japan and Turkey alongside signings across our more traditional US and European territories. Our activities in Asia continue to be managed through partners while the broader Americas, Europe and Middle East markets are currently addressed by our direct sales teams. Roughly one third of the license orders were in Europe in 2019, compared to around half in 2018. Furthermore, all of the larger transactions were in North America in 2019, whereas the split in 2018 was more balanced across our two regions. As a consequence, most of the revenue reduction was in the European segment. Overall European revenues including recurring revenues were 32 percent of the total compared to 36 percent the year before. However, looking ahead, European opportunities represent around 38 percent of total pipeline value.

Gross Margin

Gross margin was 70 percent, compared to 71 percent in 2018. This remains well within the historical range and reflects the cost of our consulting organization – both payroll and subcontracted; costs and charges associated our hosting activities, some license royalties due to OEM partners and costs and credits relating to certain indirect taxes. We expanded use of subcontractors last year as opposed to rehiring all departing consulting staff, allowing for greater flexibility.

Pipeline

Revenue visibility for the year now stands at $21.2m compared to $20.6m at this time a year ago. In future we expect to focus increasingly on ARR rather than visibility as a metric of progress. In addition, the pipeline has matured considerably since the start of 2019, with total value 50 percent higher year on year and one third of the total in advanced stages of the pipeline.

Focusing on the deals where the pipeline already indicates a buying preference, approximately 45 percent of the software-related value represents SaaS opportunity as opposed to perpetual. This shape is reflected in our planning assumptions for 2020. In this respect, our broad expectation is that the majority of new customers will opt for SaaS, and indeed we are now actively encouraging that path through internal “SaaS first” initiatives. We expect the majority of existing customers to continue to opt for perpetual licensing as a natural extension of their existing licensed base. That said, we are also developing a “cloud lift” program to encourage existing perpetual customers to upgrade their license to a hosted and managed service relationship with subscription aspects. Approximately one third of our perpetual customers already host with Sopheon.

Research and Development Expenditure

Overall expenditure in product development in 2019 increased by approximately $1.0m to $6.5m. These amounts can be compared to the headline research and development reported in the income statement showing an increase from $5.1m to $5.7m; the differences are due to the effects of capitalization and amortization of development costs. The additional spend reflects further recruitment of development resources during the year including design, architecture and coding expertise. These resources have allowed an acceleration in delivery of Accolade capabilities, to meet our twin goals of market leadership from a functional standpoint, but also in terms of being a highly credible enterprise-class solution with the scalability, security and configurability required by global corporations. To this we are now adding the evolution of the platform towards the requirements of SaaS and cloud. Overall, the amount of 2019 research and development expenditure that met the criteria of IAS38 for capitalization was $3.0m (2018: $2.6m) offset by amortization charges of $2.3m (2018: $2.2m). The higher capitalization rate reflects the greater resources referred to above; the consequent impact on amortization will come through over time as the products are released. Capitalized costs in 2019 are largely attributable to the group’s investment in the Accolade 12.3, 13.0 and 13.1 releases, the last of which is scheduled to be released in the first half of 2020.

Other Operating Costs

As we have noted in previous reports, our greatest asset and our main expenditure is on our people, which is typical of most software businesses. Payroll and related costs represent over three quarters of our cost base. Sopheon has a relatively mature and highly qualified blend of staff, reflecting the professional and intellectual demands of our chosen market. Historically, we made a strategic decision to maintain technical resources onshore in the US, as we believe that until a certain scale is reached, the cost benefits of offshoring to locations like India are outweighed by management and productivity concerns. This is starting to change, and we now have a small team working in India through an outsourcing firm to support both consulting and development efforts. Nevertheless, direct hiring remains our main source of resources and we have steadily expanded staffing since 2016. We ended last year with 162 staff, compared to 147 at the end of 2018 – many of whom were hired early in the year, reflected in an average headcount during the year of 160 (2018: 142). During 2019, our improved hiring practices ensured a better fulfilment of our hiring ambitions than in earlier years, where slow hiring often resulted in lower costs than expected.

The higher average headcount has resulted in 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 company are eligible. The bonus is primarily linked to the achievement of 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 department.

Specific comments regarding consulting operations and research and development costs are noted above. Overall costs in the sales and marketing area increased by approximately $0.2m. This reflects an increase attributable to staff growth, offset by lower commission and incentive payments. Several members of our direct sales team have been hired relatively recently and have been actively building pipeline, reflected in the growth described earlier. We expect sales pipe conversion to gather pace in 2020.

Headline administration costs have risen by approximately $0.3m. 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. Although very limited option grants were made in 2019, the full year effect of grants made in 2018 has fed through. The administration line also reflects the impact of Sopheon's adoption of IFRS 16, as further described in Note 1. This has resulted in a reduction in lease and rental expenses of $0.7m, offset by increases in depreciation and interest of $0.7m and $0.1m respectively.

With regard to foreign exchange, 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. As Sterling strengthened during 2019, approximately $0.1m of exchange losses have been recorded and expensed during the year.

Results and Corporate Tax

Adjusted EBITDA (Adjusted Earnings before Interest, Tax, Depreciation and Amortization) 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. This measure 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 Adjusted EBITDA performance for 2019 moving to $6.4m, from $9.4m in 2018. Limited influence of working capital movements has resulted in a similar reduction flowing through into cash generated from operating activities. Profit before tax reduced to $2.4m (2018: $6.4m) with the larger movement due mainly to the higher amortization and depreciation flowing from our capitalization of intangibles and the adoption of IFRS 16.

The tax charge of $0.4m (2018: $0.5m credit) reported in the income statement is made up of two main elements. Although Sopheon benefits from accumulated tax losses in a number of jurisdictions including at the US federal level, this is not universal, and accordingly a current tax charges of approximately $0.2m each were incurred in Germany and for state taxes in the US. Both included some element of prior year adjustment, amounting to approximately $0.1m. The credit in 2018 offset similar charges with an increase in recognition of the deferred tax asset owned by the business, and refunds of corporate alternative minimum tax (AMT) in the US. A total of $2.6m deferred tax asset is recognized at both 31 December 2018 and 2019, of a total potential asset of $10.6m (2018: $10.7m).

Altogether this leads to a profit after tax of $2.0m (2018: $6.9m). This has also resulted in profit per ordinary share on a fully diluted basis of 19 cents (2018: 65 cents).

Dividend

In spite of a challenging year, on the back of a very solid balance sheet, coupled with continued cash generation and continued business confidence, the board is pleased to maintain Sopheon's dividend at 3.25 pence per share for the year ended 31 December 2019 (2018: 3.25p). Subject to approval by the company's shareholders at the annual general meeting scheduled for 11 June 2020, the dividend will be paid on 10 July 2020 with a record date of 12 June 2020.

Facilities and Assets

The group's $3m revolving line of credit facility with Silicon Valley Bank was renewed last year through February 2020, with an improved interest rate of 3.75 percent, down from 7.25 percent, with a rolling annual renewal structure. The facility was only used on demand, and there were no funds drawn at year end (31 December 2018: $0.3m). In view of net cash balances approaching $20m, the board has decided that the benefits of extending the facility do not merit the costs, and has therefore decided not to renew it. Our relationship with Silicon Valley Bank remains strong with potential established for funding arrangements in connection with M&A or other corporate activity.

Intangible assets stood at $6.9m (2018: $6.2m) at the end of the year. This includes (i) $5.9m being the net book value of capitalized research and development (2018: $5.2m) and (ii) an additional $1.0m (2018: $1.0m) being goodwill arising on acquisitions completed in previous years. As indicated above in our discussion of research and development costs, capitalization and amortization have been broadly in balance for a number of years though a relatively small and temporary gap has opened up connected with the recent expansion of development resources. Our spend on tangible fixed assets was held to $0.3m last year (2018: $0.4m) and this broadly equalled depreciation, resulting in net book value staying flat at $0.5m at the end of the year (2018: $0.5m).

As we noted in our interim statement and in more detail in Note 1, the adoption of IFRS 16 requires lessees to recognize a lease liability that reflects future lease payments and a "right-of-use asset" in all lease contracts within scope, with no distinction between financing and operating leases. This has resulted in recognition of total right-of-use assets and corresponding lease liabilities of $1.6m each at 31 December 2019.

Consolidated net assets at the end of the year stood at $27.9m (2018: $25.6m), an increase of $2.3m and including net current assets of $17.2m (2018: $16.1m). Within the net current asset position, cash at 31 December 2019 amounted to $19.4m (2018: $17.1m). Approximately $9.2m was held in US Dollars, $9.0m in Euros and $1.2m in Sterling. Net cash, stated after subtracting debt, rose from $16.7m the previous year to $19.4m at the end of 2019, as all debt (excluding notional debt from the adoption of IFRS 16) has been eliminated.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 *$'000*	*2018* *$'000*
Revenue	**30,254**	**33,922**
Cost of sales	(9,043)	(9,916)
Gross profit	**21,211**	**24,006**
Sales and marketing expense	(8,806)	(8,552)
Research and development expense	(5,682)	(5,078)
Administrative expense	(4,305)	(3,995)
Operating profit	**2,418**	**6,381**
Finance income	166	102
Finance expense	(127)	(77)
Profit before tax	**2,457**	**6,406**
Income tax (expense)/credit	(409)	514
Profit for the year	**2,048**	**6,920**
Earnings per share - basic	20.16c	68.60c
Earnings per share - diluted	19.20c	64.98c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 *$'000*	*2018* *$'000*
Profit for the year	**2,048**	**6,920**
Other comprehensive expense		
Exchange differences on translation of foreign operations	(41)	(314)
Total comprehensive income for the year	**2,007**	**6,606**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2019

	2019 *$'000*	*2018* *$'000*
Assets		
Non-current assets		
Property, plant and equipment	510	532
Right-of-use assets	1,553	-
Intangible assets	6,874	6,206
Deferred tax asset	2,557	2,557
Other receivables	123	227
	11,617	**9,522**
Current assets		
Trade and other receivables	13,000	13,997
Cash and cash equivalents	19,433	17,086
	32,433	**31,083**
Total assets	**44,050**	**40,605**
Liabilities		
Current liabilities		
Trade and other payables	4,238	5,621
Borrowings	-	355
Lease liabilities	643	-
Contract liabilities	10,337	9,035
	15,218	**15,011**
Non-current liabilities		
Lease liabilities	936	-
Total liabilities	**16,154**	**15,011**
Net assets	**27,896**	**25,594**
Equity		
Share capital	3,126	3,118
Capital reserves	8,942	8,277
Profit and loss account and translation reserve	15,828	14,199
Total equity	**27,896**	**25,594**

CONSOLIDATED CONDENSED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

	2019 *$'000*	*2018* *$'000*
Operating activities		
Profit for the year	2,048	6,920
Adjustments for non-cash and financing items	3,985	2,259
Movements in working capital	1,021	1,493
Net cash generated from operating activities	7,054	10,672
Investing activities		
Finance income	166	102
Purchases of property, plant and equipment	(345)	(420)
Development costs capitalized	(3,010)	(2,615)
Net cash used in investing activities	(3,189)	(2,933)
Financing activities		
Issue of shares	105	213
Repayment of borrowings	(29)	(170)
Movement in lines of credit	(325)	(2,674)
Lease payments	(739)	-
Finance expense	(60)	(77)
Dividends paid	(430)	(337)
Net cash used in financing activities	(1,478)	(3,045)
Effect of foreign exchange rate changes	(40)	(337)
Net increase in cash and cash equivalents	**2,347**	**4,357**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2019

	Share Capital *$'000*	*Capital Reserves* *$'000*	*Translation Reserve* *$'000*	*Retained Profits* *$'000*	*Total* *$'000*
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	-	-	2,690
Share-based payments	-	383	-	129	512
Dividends paid	-	-	-	(337)	(337)
At 1 January 2019	**3,118**	**8,277**	**50**	**14,149**	**25,594**
Total comprehensive income for the year	-	-	(41)	2,048	2,007
Issue of shares	8	97	-	-	105
Share-based payments	-	568	-	52	620
Dividends paid	-	-	-	(430)	(430)
At 31 December 2019	**3,126**	**8,942**	**9**	**15,819**	**27,896**

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 2018 or 2019. Statutory accounts for the years ended 31 December 2018 and 31 December 2019, which were approved by the directors on 18 March 2020, have been reported on by the Independent Auditors. The Independent Auditors' Reports on the Annual Report and Financial Statements for each of 2018 and 2019 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 2018 have been filed with the Registrar of Companies. The statutory accounts for the year ended 31 December 2019 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 2018, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2019. The new standard impacting the Group that has been adopted in the annual financial statements for the year ended 31 December 2019 is IFRS 16: Leases, further details of which appear in Note 9 below. 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 2019 and 2018 derived from the design, development and marketing of software products with associated implementation and consultancy services, as more particularly described in the Chairman's statement. The business is seen as one cash generating unit and operates as a single operating segment. For management purposes, the Group is organized geographically across two principal territories, North America and Europe. Information relating to this geographical split is outlined below.

NOTES

3. Segmental Analysis (continued)

The information in the following table relates to external revenues location of operations. Inter-segment revenues are priced on an arm's length basis.

Year ended 31 December 2019	*North America $'000*	*Europe $'000*	*Total $'000*
Income Statement			
External revenues – by location of operations	20,690	9,564	30,254
Operating profit before interest and tax	3,887	(1,469)	2,418
Profit before tax	3,962	(1,505)	2,457
Finance income	166	-	166
Finance expense	(91)	(36)	(127)
Depreciation and amortization	(2,991)	(413)	(3,404)
Adjusted EBITDA	6,879	(437)	6,442
Balance Sheet			
Fixed asset additions	243	102	345
Capitalization of internally generated development costs	3,010	-	3,010
Total assets	29,052	14,998	44,050
Total liabilities	(11,123)	(5,031)	(16,154)

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)
Adjusted EBITDA	5,273	4,112	9,385
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)

Revenues attributable to customers in North America in 2019 amounted to $20,003,000 (2018: $20,895,000). Revenue attributable to customers in the rest of the world amounted to $10,245,000 (2018: $12,937,000) of which $8,762,000 (2018: $11,555,000) was attributable to customers in Europe.

NOTES

4. Revenue

All of the Group's revenue in respect of the years ended 31 December 2019 and 2018 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 IFRS 15 requirement to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

	2019	*2018*
	$'000	*$'000*
Perpetual software licenses	5,401	8,921
Consulting and implementation services	9,355	10,771
Maintenance, software subscriptions & hosting	15,498	14,230
	30,254	33,922

Perpetual licenses are recognized at a point in time. Consulting and implementation services, and maintenance, subscription and hosting services, are recognized over time.

5. Adjusted EBITDA

Adjusted EBITDA, which is a company specific measure, is defined as earnings before interest, tax, depreciation, amortization and employee share-based payment charges is an important measure, since it is widely used by the investment community. It is calculated by deducting net interest receivable of $39,000 (2018: $25,000) and adding back depreciation and amortization charges amounting to $3,404,000 (2018: $2,527,000) and employee share-based payment charges of $620,000 (2018: $512,000) to the profit before tax of $2,457,000 (2018: $6,406,000).

6. Share-Based Payments

In accordance with *IFRS 2 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 $620,000 (2018: $512,000). Where an option vests in multiple instalments, each instalment is treated as a separate grant with its own vesting period. The entire expense is recognized within administrative expenses.

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) was 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 is refundable over a four year period to December 2021 and $0.1m remaining in this regard is classified in other receivables.

At 31 December 2019, tax losses estimated at $52m (2018: $53m) 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 (2018: $2.6m) and a further potential deferred tax asset of $8.0m (2018: $8.2m), based on the tax rates currently applicable in the relevant tax jurisdictions. An aggregate $8.8m (2018: $8.8m) of these losses are subject to restriction under section 382 of the US Internal Revenue Code due to historical changes of ownership.

NOTES

8. Earnings per Share

The calculation of basic earnings per ordinary share is based on a profit of $2,457,000 (2018: $6,920,000), and on 10,156,000 (2018: 10,088,000) 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 the number of ordinary shares to reflect the impact of employee share options to the extent that exercise prices are below the average market price for Sopheon shares during the year. These adjustments had the effect of increasing the number of ordinary shares to 10,667,000 (2018: 10,649,000).

9. Leases

The Group has adopted IFRS 16 with effect from 1 January 2019, replacing the existing guidance in IAS 17 - Leases ("IAS 17"). IFRS 16 requires lessees to recognize a lease liability that reflects future lease payments and a "right-of-use asset" in all lease contracts within scope, with no distinction between financing and operating leases. IFRS 16 exempts lessees in short-term leases or when the underlying asset has a low value. The Group has elected to apply the practical expedient not to recognize right-of-use assets and lease liabilities for leases of low value assets only.

The adoption of IFRS 16 has resulted in the Group recognizing right-of-use assets and lease liabilities for all contracts that are, or contain, a lease. For leases historically classified as operating leases under the previous accounting requirements, the Group did not recognize related assets or liabilities, but disclosed instead the total commitment in its annual financial statements. The Group has elected to apply the modified retrospective method, which means that the prior period has not been restated for the new standard.

Instead of recognizing an operating expense for its operating lease payments, the Group now recognizes interest on its lease liabilities and amortization on its right of use assets. This has the effect of increasing adjusted EBITDA by the amount of its current operating lease payments, which for the year ended 31 December 2019 was $734,000.

10. 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 $3,010,000 (2018: $2,615,000), and amortization of $2,342,000 (2018: $2,230,000) during the year.

11. 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.

12. 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.