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SOPHEON PLC

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

RESULTS FOR THE 6 MONTHS TO 30 JUNE 2019

Sopheon plc, the international provider of software and services for Enterprise Innovation Management solutions, announces its unaudited half-yearly financial report for the six months ended 30 June 2019 together with a business review and outlook statement for the second half of the year.

HIGHLIGHTS:

- Revenue: $13.7m (2018: $15.9m)
  EBITDA[1]: $2.5m (2018: $4.1m)
  Net cash: $18.7m (2018: $15.5m)
  Recurring revenue: $15.3m (2018: $13.7m) annual run rate

- In line with our trading update of 24 July 2019, in conjunction with an unusually strong first half comparative from 2018, several factors contributed to a shift back to a more traditional second half weighting this year, alongside a rapidly advancing sales pipeline.
- The underlying market and commercial momentum is increasing. Expanded sales resources have contributed to a 48 percent growth in sales pipeline value between January and June, expected to drive a strong second half weighted revenue profile. Both the volume of deals and the number of larger deals in the pipeline have risen to all-time highs.
- The proportion of SaaS business in the expanded pipeline has risen sharply, potentially accelerating our desired transition to a higher recurring revenue model and greater lifetime customer revenue. Revenue visibility[2] for full-year 2019 is now at $25.4m (2018: $27.2m).
- Cash generation and balance sheet remain strong.

Sopheon's Chairman, Barry Mence said: *"The future prospects of the business have never been brighter, and we do not believe this first half pause in the impressive financial performance of the past several years has a bearing on Sopheon's unique potential and growth opportunity. The business remains profitable and cash generative, and our balance sheet is stronger than ever. With unprecedented activity and higher value in our sales funnel, we continue to anticipate rising deal flow and traction through the balance of the year. We see the shift to SaaS as reflective of a change in procurement behavior, and not a change in commercial momentum, which is rising. The Board believes that this development will drive shareholder value and remains confident that Sopheon is well positioned to build on its leadership position in the new and exciting space of Strategy Execution management."*

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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

[1] EBITDA is defined in Note 3. [2] Revenue visibility is defined in Note 5.

CHAIRMAN'S STATEMENT

TRADING PERFORMANCE

First half revenue was $13.7m compared to $15.9m last year on the back of an unusually strong 2018 second quarter performance. We expect the revenue profile for 2019 to return to a more traditional fourth quarter weighting, supported by strong pipeline growth. There has also been some currency impact due to rising dollar strength – on a constant currency basis, the first half 2019 revenue would have been just over $14m. We closed 18 software transactions in the period with 7 from new customers (2018: 29 and 9 respectively). As we have always reported, this is a feature of our traditionally perpetual licensing model, where timing of individual deals can make a big difference to reported periodic performance. In addition to an apparent return to year-end orientation for customer buying behavior, three factors contributed to delays in closing a rapidly advancing sales funnel: unexpected client personnel changes; customer scope expanding from point to enterprise solution; and ramp-up time of our newer sales resources. This is balanced by unprecedented pipeline growth, up 48 percent during the period, with the number of opportunities above $500,000 in deal value up by 29 percent. The sales teams are extremely busy working on closing this pipeline in the second half of the year, giving us confidence in the expected out-turn for the year.

The geographical footprint of the new customers was balanced and global in nature, with wins in Thailand, the UK, USA, Canada and the Benelux. We continue to see tremendous potential in Asia. The new customers were predominantly in our traditionally core industries of chemicals, food and packaging, and represented a mix of perpetual and SaaS deals. The recurring revenue base rose to $15.3m at the half year point from $13.7m a year ago. The US Dollar strength alluded to above has also muted the apparent growth in recurring revenue, especially since year end. In addition to license business, we continued to sign substantial service extensions alongside delivery of a range of implementation and upgrade projects. Overall, revenue mix between license, service and maintenance/hosting was 15:35:50 respectively, compared to 30:32:38 in the first half of last year – reflecting the delays in license sales referred to above.

Since the period end, we have continued to close new business and can report that revenue visibility today stands at $25.4m. This compares to just over $27m at this time in 2018, after a very strong second quarter last year. Overall, the pipeline for the year increased by 48 percent between January and July, and the proportion of larger deals in the pipeline also rose substantially. In our annual report for 2018, we noted that we were looking at ways to accelerate our migration to a more recurring revenue model but were uncertain as to market timing of this. We are now experiencing a market shift which is resulting in an increasing proportion of license opportunities in the pipeline opting for a SaaS model rather than perpetual. While this change in procurement preference to a rental rather than purchase model is coming sooner than we expected, it is in line with the Group's long-term strategy. A greater number of customers in the pipeline opting for SaaS licenses will have the impact of reducing revenue in the near term, in exchange for increasing recurring revenue in future periods, and consequently a greater lifetime revenue from each customer. The board believes this desired transition will increase shareholder value in the medium term.

MARGIN AND RESULTS

Gross margin for the period was consistent at 69 percent compared to 71 percent in the first half of 2018. Direct costs include costs for license and support for certain OEM components of our solution, costs of our hosting operations, and movements in indirect taxes; but the main component is the cost of our delivery teams and associated subcontractors. This has remained fairly steady, as is in fact true of all major cost categories.

Sales and marketing costs are up slightly at $4.3m from $4.1m last year, reflecting higher staff levels offset to some extent by lower sales commissions in line with revenue. The effect of the new hires offset by capitalization has resulted in net R&D expense in the income statement steady at just over $2.4m. However, this disguises a higher rate of capitalization of product development costs at $1.5m compared to $1.2m the year before, offset by $1.1m of amortization (2018: $1.1m); accordingly actual expenditure on R&D activities has increased by around $0.3m. Finally, administrative expenses (which includes all other overheads, office costs, regulatory and compliance costs, and depreciation) are relatively flat at $2m compared to $1.9m last year.

As noted in our annual report our recruitment efforts have had better success this year than in the past, which is encouraging, with 161 people on staff at the end of June compared to 147 at the end of last year. The increase is across both commercial and technical areas. We have a number of remaining vacancies that we are seeking to fill but are keeping an eye on maintaining our track record of profitability. Hiring activity remains balanced across commercial, deployment and development areas. In view of the rapidly evolving market for our solution area, a particular area of emphasis is to bring on talent to develop Sopheon's expanded business strategy and partnership programs.

As further described in the balance sheet section below and in note 1, during the year Sopheon adopted IFRS 16. This has resulted in a reduction in leases expense of $370,000, offset by increases in depreciation and interest of $350,000 and $35,000 respectively.

Profit before tax reported for the half-year period was $0.9m (2018: $2.8m). This result includes net interest, depreciation and amortization costs amounting to $1.6m (2018: $1.3m). The EBITDA result for the first half of 2019, which does not include these elements, was accordingly $2.5m (2018: $4.1m). No adjustment has been recorded to the deferred tax asset, however provision has been made for approximately $0.2m in current tax for US state taxes and German corporation tax, giving a final profit after tax of $0.6m compared to $2.6m the year before. This has translated to basic and diluted EPS of 6.33 and 5.98 cents respectively (2018: 26.34 and 24.99).

BALANCE SHEET AND CORPORATE

Net assets at 30 June 2019 have grown to $26.2m (30 June 2018: $21.2m), with net cash after borrowings at the end of the period rising to $18.7m from $16.7m at year end (30 June 2018: $15.5m) underlining the continued positive cash generation in the business. Of the cash balance, approximately $7.7m was held in US Dollars, $9.4m in Euros and the balance of $1.6m in Sterling (30 June 2018: $7.1m, $6.7m, and $1.7m respectively).

The Group's $3m revolving line of credit facility with Silicon Valley Bank was recently renewed through February 2020 with an improved interest rate of 3.75 percent, down from 7.25 percent. In future, a rolling annual renewal is anticipated. The facility terms are subject to covenants and drawdown mechanics based on working capital ratios. The facility is only used on demand, and at 30 June 2019 there were no funds drawn (30 June 2018: $0.4m).

Intangible assets at 30 June 2019 stood at $6.6m (30 June 2018: $5.9m). This includes (i) $5.6m being the net book value of capitalized research and development (30 June 2018: $4.9m) and (ii) $1.0m (30 June 2018: $1.0m) being the net book value of acquired intangible assets. In addition, as further detailed in Note 7 of the financial statements, in prior years the Group recognized a $2.6m deferred tax asset, of a total potential deferred tax asset of $10.8m. No change to the asset is proposed at this time. 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 initial recognition of right-of-use assets totaling $1.75m and total lease liabilities of $1.77m at 30 June 2019.

On the back of the strong 2018 performance, the Board proposed an increase to the Group's dividend from 2.5p to 3.25p per share ($0.4m in total compared to $0.3m the prior year). This was approved by the shareholders in the annual general meeting held on 13 June 2019 and paid on 12 July 2019.

STRATEGY AND PRODUCT

Our vision for the market and our position remains broadly unchanged. In recent years 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 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 and a further 15 so far this year.

Within this context, we continue to focus on and refine our three core growth strategies − to extend our footprint in existing customers by expanding the business scope of our enterprise platform, to target new business acquisition with a clear vertical focus, and to develop a partnership ecosystem.

- At the root of our customer extension strategy is the concept of different use cases that leverage the Accolade platform beyond product innovation. We have identified fourteen different use cases that have already been deployed by our customers, in many cases without our proactive effort; these represent a substantial revenue opportunity in the customer base. In 2019 we plan to introduce and actively market three of the fourteen to generate additional growth. The first, Strategic Initiative Management, was introduced in the first half of the year, and the remaining two will be introduced in the second half.

- Our disciplined focus on selling into defined vertical industry sectors continues. Last year, every one of our new customer wins was in one of those verticals – chemicals, aerospace, technology, consumer, food, industrial manufacturing and more recently, automotive and transportation. Our pipeline now includes a number of opportunities in the automotive space.

- Partnership activities include stepping up activity with our reseller network in the Asia-Pacific region, and deepening and formalizing relationships with major consulting firms that have already recommended Accolade to a number of their customers in recent years.

These strategies and Sopheon's differentiation are all supported by ongoing developments with our Accolade platform. We are on track to deliver against our aggressive release schedule again in 2019. We released Accolade version 12.2 in January and version 12.3 in June, and will be releasing version 13.0 in the final quarter. Our latest software releases strengthen corporate flexibility through the linkage between strategy and execution activities, introducing more localized flexibility without compromise to corporate governance, improving transparency of dependencies and notifications for risk management, and continuing to enhance the user experience and time savings through smart automation. In parallel with the version 13.0 development, we continue to enhance scalability and security management, and are also updating the mobile application.

OUTLOOK

The future prospects of the business have never been brighter, and we do not believe this first half pause in the impressive financial performance of the past several years has a bearing on Sopheon's unique potential and growth opportunity. The business remains profitable and cash generative, and our balance sheet is stronger than ever. With unprecedented activity and higher value in our sales funnel, we continue to anticipate rising deal flow and traction through the balance of the year.

Coming into 2019, one of our stated operational goals was to increase the proportion of recurring revenue sales; as it turns out the proportion of such business in the pipeline is substantially greater than we had anticipated. We see this shift as reflective of a change in procurement behavior in our target customers, and not a change in commercial momentum, which is rising. The Board believes that this development will drive shareholder value, and remains confident that Sopheon is well positioned to build on its leadership position in the new and exciting space of Strategy Execution management.

Barry Mence
Chairman

21 August 2019

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND 30 JUNE 2018

	Note	*30 June 2019 $'000 (unaudited)*	*30 June 2018 $'000 (unaudited)*
Revenue	3	**13,686**	**15,930**
Cost of sales		(4,194)	(4,605)
Gross profit		**9,492**	**11,325**
Sales and marketing expense		(4,256)	(4,113)
Research and development expense		(2,453)	(2,423)
Administrative expense		(1,953)	(1,933)
Operating profit		**830**	**2,856**
Finance income		89	37
Finance expense		(64)	(45)
Profit for the period before tax	3	**855**	**2,848**
Income tax charge	7	(213)	(203)
Profit for the period		**642**	**2,645**
Earnings per share - basic in cents	4	6.33c	26.34c
Earnings per share - fully diluted in cents	4	5.98c	24.99c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND 30 JUNE 2018

	2019 $'000 (unaudited)	*2018 $'000 (unaudited)*
Profit for the period	**642**	**2,645**
Amounts that may be recycled in future periods		
Exchange differences on translation of foreign operations	5	(42)
Total comprehensive profit for the period	**647**	**2,603**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2019 AND 30 JUNE 2018

	Note	*30 June 2019 $'000 (unaudited)*	*31 Dec 2018 $'000 (audited)*	*30 June 2018 $'000 (unaudited)*
Assets				
Non-current assets				
Property, plant and equipment		577	532	526
Right-of-use assets		1,750	-	-
Intangible assets	6	6,648	6,206	5,906
Deferred tax asset	7	2,557	2,557	2,010
Other receivable		227	227	19
		11,759	**9,522**	**8,461**
Current assets				
Trade and other receivables		8,144	13,997	9,664
Cash and cash equivalents		18,715	17,086	15,990
		26,859	**31,083**	**25,654**
Total assets		**38,618**	**40,605**	**34,115**
Liabilities				
Current liabilities				
Borrowings		-	355	441
Contract liabilities		7,951	9,035	7,536
Short-term lease liabilities		669	-	-
Trade and other payables		2,262	5,621	4,559
Dividends payable	8	420	-	337
		11,302	**15,011**	**12,873**
Non-current liabilities				
Long-term lease liabilities		1,097	-	-
Total liabilities		**12,399**	**15,011**	**12,873**
Net assets		**26,219**	**25,594**	**21,242**
Equity				
Share capital		3,122	3,118	3,115
Capital reserves		8,653	8,277	8,060
Translation reserve		55	50	322
Retained earnings		14,389	14,149	9,745
Total equity		**26,219**	**25,594**	**21,242**

CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND 30 JUNE 2018

	2019	*2018*
	$'000	*$'000*
	(unaudited)	*(unaudited)*
Operating Activities		
Profit for the period	642	2,645
Finance income	(89)	(37)
Finance expense	64	45
Depreciation of property, plant and equipment	182	136
Depreciation of right-of-use assets	350	-
Amortization of intangible assets	1,108	1,129
Share based payment expense	318	188
Operating cash flows before movement in working capital	2,575	4,106
Decrease in receivables	5,837	5,688
Decrease in payables	(4,416)	(2,403)
Net cash from operating activities	3,996	7,391
Investing Activities		
Finance income	89	37
Purchases of property, plant and equipment	(228)	(245)
Capitalization of development costs	(1,551)	(1,213)
Net cash used in investing activities	(1,690)	(1,421)
Financing Activities		
Exercise of share options	80	188
Repayment of borrowings	(29)	(85)
Movement in amounts drawn under lines of credit	(325)	(2,674)
Lease payments	(371)	-
Finance expense	(27)	(46)
Net cash used in financing activities	(672)	(2,617)
Net increase in cash and cash equivalents	**1,634**	**3,353**
Cash and cash equivalents at the beginning of the period	**17,086**	**12,729**
Effect of foreign exchange rate changes	(5)	(92)
Cash and cash equivalents at the end of the period	**18,715**	**15,990**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2019 AND 30 JUNE 2018

		Share Capital *$'000*	*Capital Reserves* *$'000*	*Trans-lation Reserve* *$'000*	*Retained Earnings* *$'000*	*Total* *$'000*
At 1 January 2018 (audited)		**3,079**	**7,720**	**364**	**7,437**	**18,600**
Profit for the period		-	-	-	2,645	2,645
Other comprehensive income[1]		-	-	(42)	-	(42)
Total comprehensive income		-	-	(42)	2,645	2,603
Dividends payable (restated)	8	-	-	-	(337)	(337)
Issues of shares		36	152	-	-	188
Share based payments		-	188	-	-	188
At 30 June 2018 (unaudited)		**3,115**	**8,060**	**322**	**9,745**	**21,242**
Profit for the period		-	-	-	4,275	4,275
Other comprehensive income[1]		-	-	(272)	-	(272)
Total comprehensive income		-	-	(272)	4,275	4,003
Issues of shares		3	22	-	-	25
Share based payments		-	324	-	-	324
Lapse or exercise of share options		-	(129)	-	129	-
At 31 December 2018 (audited)		**3,118**	**8,277**	**50**	**14,149**	**25,594**
Profit for the period		-	-	-	642	642
Other comprehensive income[1]		-	-	5	-	5
Total comprehensive income		-	-	5	642	647
Dividends payable	8	-	-	-	(420)	(420)
Issues of shares		4	76	-	-	80
Share based payments		-	318	-	-	318
Lapse or exercise of share options		-	(18)	-	18	-
At 30 June 2019 (unaudited)		**3,122**	**8,653**	**55**	**14,389**	**26,219**

1. Other comprehensive income comprises solely of exchange differences arising on translation of foreign operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Sopheon plc is a company domiciled in England. The interim financial information of the Company for the six months ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the "Group").

The Board of Directors approved this interim report on 21 August 2019.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation and accounting policies

These interim consolidated financial statements have been prepared using accounting policies based on International Financial Reporting Standards (IFRS and IFRIC Interpretations) issued by the International Accounting Standards Board ("IASB") as adopted for use in the EU. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the 31 December 2018 Annual Report. The financial information for the half years ended 30 June 2019 and 30 June 2018 does not constitute statutory accounts within the meaning of Section 434 (3) of the Companies Act 2006 and both periods are unaudited.

The annual financial statements of Sopheon Plc are prepared in accordance with IFRS as adopted by the European Union. The comparative financial information for the year ended 31 December 2018 included within this report does not constitute the full statutory Annual Report for that period. The statutory Annual Report and Financial Statements for 2018 have been filed with the Registrar of Companies. The Independent Auditors' Report on the Annual Report and Financial Statements for the year ended 31 December 2018 was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under 498(2) - (3) of the Companies Act 2006.

The Group has applied the same accounting policies and methods of computation in its interim consolidated financial statements as in its 2018 annual financial statements, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2019 and will be adopted in the 2019 financial statements. The new standard impacting the Group that will be adopted in the annual financial statements for the year ended 31 December 2019, and which have given rise to changes in the Group's accounting policies is IFRS 16 leases. Details of the impact of this standard are given below. Other new and amended standards and interpretations issued by the IASB that will apply for the first time in the next annual financial statements are not expected to have a material impact on the Group.

IFRS 16 leases

The Group adopted IFRS 16 from 1 January 2019, replacing the existing guidance in IAS 17 - Leases ("IAS 17"). IFRS 16 changes the existing guidance in IAS 17 and 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 the when 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 legacy accounting requirements the Group does not recognize related assets or liabilities, disclosing instead the total commitment in its annual financial statements. The Group has elected to apply the modified retrospective method, which means that prior periods are not updated for the new standard.

Basis of preparation and accounting policies (continued)

Therefore, there will be no impact on any comparative accounting period (interim or annual), with any leases recognized on balance sheet on the date of initial application of IFRS 16, being 1 January 2019. Finally, 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 increased the reported EBITDA by the amount of its current operating lease cost, which for 6 months ended 30 June 2019 was approximately $350,000.

Going Concern

The consolidated financial statements have been prepared on a going concern basis. In reaching their assessment, the directors have considered a period extending at least 12 months from the date of approval of this half-yearly financial report. 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.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales-related taxes.

Sales of software licenses are recognized once no significant obligations remain owing to the customer in connection with such license sale. Such significant obligations could include giving a customer a right to return the software product without any preconditions, or if the Group is unable to deliver a material element of the software product by the balance sheet date.

Revenues relating to maintenance, hosting and post-contract support agreements, and software subscription contracts, are deferred and recognized over the period of the agreements.

Revenues from implementation and consultancy services are recognized as the services are performed, or in the case of fixed price or milestone-based projects, on a percentage basis as the work is completed and any relevant milestones are met, using latest estimates to determine the expected duration and cost of the project.

Deferred Tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are recognized only to the extent that the level and timing of taxable profits can be measured and it is probable that these will be available against which deductible temporary differences can be utilized.

Deferred tax is calculated at tax rates that have been enacted or substantively enacted at the balance sheet date, and that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Internally Generated Intangible Assets (Research and Development Expenditure)

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

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

Development costs not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in the income statement as incurred. Capitalization of a particular activity commences after proof of concept, requirements and functional concept stages are complete.

Capitalized development costs are amortized over the period over which the Group expects to benefit from selling the product developed. This has been estimated to be four years from the date of code-finalization of the applicable software release. The amortization expense in respect of internally generated intangible assets is included in research and development costs.

3. SEGMENTAL ANALYSIS AND EBITDA

All of the Group's revenues in respect of the six month periods ended 30 June 2019 and 2018 derived from the design, development and marketing of software products with associated implementation and consultancy services. For management purposes, the Group is organized across two principal geographic operating segments, as used in the Group's last annual financial statements. The first segment is North America, and the second Europe. Information relating to these two segments is given below. All information provides analysis by location of operations and is stated before intra-group charges.

Six months to 30 June 2019		*N America*	*Europe*	*Total*
		$'000	*$'000*	*$'000*
External revenues		8,521	5,165	13,686
Profit before tax		(215)	1,070	855
EBITDA		1,178	1,293	2,471
Total assets	8	24,185	14,433	38,618

Six months to 30 June 2018		*N America*	*Europe*	*Total*
		$'000	*$'000*	*$'000*
External revenues		10,850	5,080	15,930
Profit before tax		1,706	1,142	2,848
EBITDA		2,954	1,168	4,122
Total assets	8	23,043	11,072	34,115

EBITDA is arrived at after adding back net finance costs, depreciation and amortization amounting to $1,616,000 (2018: $1,274,000) to the profit before tax. Details of these amounts are set out in the consolidated cash flow statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. EARNINGS PER SHARE

The calculation of basic earnings per ordinary share is based on earnings of $642,000 (2018: $2,645,000) and on 10,146,617 ordinary shares (2018: 10,041,292) being the effective weighted average number of ordinary shares in issue during the period.

For the purpose of calculating the diluted earnings per ordinary share, any options to subscribe for Sopheon shares at prices below the average share price prevailing during the period are treated as exercised at the later of 1 January 2019 or the grant date. The treasury stock method is then used, assuming that the proceeds from such exercise are reinvested in treasury shares at the average market price prevailing during the period. The diluted number of shares used at 30 June 2019 is 10,726,181 (2018: 10,586,497)

5. REVENUE VISIBILITY

Revenue visibility at any point in time 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 and license subscription streams. The visibility calculation does not include revenues from new sales opportunities expected to close during the remainder of 2019.

6. INTANGIBLE ASSETS

Certain development expenditure is required to 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 $1,551,000 (2018: $1,213,000), and amortization of $1,108,000 (2018: $1,129,000) during the period.

7. TAXATION

The tax charge reflects certain US state taxes, and German corporate taxes. At 30 June 2019, income tax losses estimated at $53m (2018: $63m) were available to carry forward by the Group, arising from historic losses incurred at the US federal level and also in the UK and the Netherlands. These losses have given rise to a recognized deferred tax asset of $2.6m (2018: $2.0m) and a further, but currently unrecognized, potential deferred tax asset of $8.2m (2018: $10.9m), based on the tax rates currently applicable in the relevant tax jurisdictions. An aggregate $9.0m (2018: $9.0m) of these losses are subject to restriction under section 392 of the US Internal Revenue Code, whereby the ability to utilize net operating losses arising prior to a change of ownership is limited to a percentage of the entity value of the corporation at the date of change of ownership.

In addition to income taxes, the Group is also subject to sales and value added tax in the various jurisdictions in which it operates. Recent developments US case law, as well as audits by authorities have highlighted the complex sales tax compliance requirements associated with individual US states. Contractually, the Group's policy is to ensure that liability for sales tax is a customer liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. DIVIDEND

The Board has proposed an increase to the Company's dividend from 2.5p to 3.25p per share. This was approved by the shareholders in the annual general meeting held on 13 June 2019 and an amount of $420,000 is shown within current liabilities in the statement of financial position as at 30 June 2019. A similar entry was omitted in the statement of financial position for 30 June 2018 in connection with last year's maiden dividend, and this has accordingly been restated to reflect the dividend payable at that time of $337,000. This has in turn restated net assets as at 30 June 2018 from $21.6m to $21.2m.

9. RELATED PARTY TRANSACTIONS

There were no related party transactions required to be disclosed in any period. Transactions between the Company and its subsidiary undertakings, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

10. PRINCIPAL RISKS AND UNCERTAINTIES

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. The directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the year ended 31 December 2018, which contains a detailed explanation of the risks relevant to the Group on page 28, and is available at www.sopheon.com. Other principal risks and uncertainties of the Group for the remaining six months of the current financial year are disclosed in the Chairman's Statement and the notes to the interim financial information included in this half-yearly financial report.

11. CAUTIONARY STATEMENT

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

The information communicated in this announcement is inside information for the purposes of Article 7 of Regulation 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse.

The Board of Directors approved this interim report on 21 August 2019.

Introduction

We have been engaged by Sopheon plc (the "Company") to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises the consolidated income statement; consolidated statement of comprehensive income; consolidated statement of financial position; consolidated cash flow statement; consolidated statement of changes in equity; and associated notes.

We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial information.

Directors' Responsibilities

The interim financial report, including the financial information contained therein, is the responsibility of and has been approved by the directors. The directors are responsible for preparing the interim financial report in accordance with the rules of the London Stock Exchange for companies trading securities on AIM, which require that the financial information must be presented and prepared in a form consistent with that which will be adopted in the Company's annual financial statements having regard to the accounting standards applicable to such annual financial statements.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with the rules of the London Stock Exchange for companies whose shares are admitted to trading on AIM.

BDO LLP
Chartered Accountants & Registered Auditors, London, United Kingdom 21 August 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).