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SOPHEON PLC

(“Sopheon”, the “Group” or the “Company”)

AUDITED RESULTS STATEMENT FOR THE YEAR TO 31 DECEMBER 2020

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 2020, in line with market expectations, together with an outlook for the current year.

FINANCIAL HIGHLIGHTS:

- Revenue of $30.0m, maintained in the face of challenging year due to COVID, whilst embarking on a SaaS transition (2019: $30.3m)
- ARR[1] rose from $15.9m at the start of 2020 to $18.0m at the end of the year
- Full year 2021 revenue visibility[2] is now at $24.5m (last year at this time: $21.2m)
- TCV[2] of signed contract bookings up 1.25X, and TCV of SaaS bookings up 2.74X
- Adjusted EBITDA[3] of $5.9m (2019: $6.4m)
- PBT of $1.7m (2019: $2.5m)
- Net cash of $21.7m (2019: $19.4m) and the Group has no debt
- Dividend to be maintained at 3.25p per share (2019: 3.25p)

OPERATIONAL HIGHLIGHTS

- 10 new customer wins including DuPont, LG, Hochland, Clif Bar and Mondelez. Six of the new customers signed had deal values over $1m.
- SaaS First and SaaS uplift programs introduced to assist clients in moving to the cloud. Over 50% of new clients signed SaaS contracts and four existing clients converted to SaaS as part of the SaaS Uplift program.
- Continued investment in cloud-native SaaS capabilities for Accolade
- Gross retention of 91.5% (2019: 94.2%) with customers taking cost decisions earlier in the year, with a return to improved levels in the second half
- Greg Coticchia, who has been working with us for some time and demonstrated his capability and value add to the Group, to join Board and spearhead cloud strategy as CEO. Andy Michuda to become Executive Chairman, focusing on partnerships and M&A alongside governance. Barry Mence to step down to become a Non-Executive Director.

Barry Mence, Chairman, commented: *“With a solid revenue base already in place for 2021, plus our strong balance sheet, a superb customer base and a team of great people – I am confident that Sopheon has a great future, and that the SaaS transition is exactly the right strategy to pursue. The board is excited to be appointing Greg Coticchia as CEO – he is already having significant impact on the business, and his experience and track record in software and innovation are invaluable. I can think of no better person than Andy Michuda for the role of Executive Chairman. My own commitment to Sopheon is undimmed, and I will remain a non-executive director and major shareholder in the company as we go through this exciting new chapter in the Sopheon story. We also continue to believe in sharing success with shareholders, and I am therefore pleased to announce that we will again maintain our dividend at 3.25p per share.”*

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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]*Annual Recurring Revenue*
[2]*Total Contract Value*
[3]*Adjusted EBITDA is defined and reconciled in Note 5 to this report*
[4]*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.*
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CHAIRMAN'S STATEMENT

I am very proud to report a growth in contractual bookings over the previous year in a period of unpredictability and unparalleled disruption. We are reporting $30m revenue in 2020, matching the prior year, and with several other indicators showing rising commercial traction, even in the face of dual headwinds. Besides the global shock caused by the pandemic, this was our first full year of prioritizing Software as a Service (SaaS) contracts for our new customer engagements. Each of these factors created downward pressure on revenues, highlighting the strength of our achievement. The pandemic introduced new challenges to sales and retention; and our strategy to make selling new SaaS contracts a priority reduces revenue recognition in the first year compared to traditional perpetual licenses, trading this for a higher quality and predictable ongoing recurring revenue stream in the future. Other key metrics, core to measuring the progress of our cloud transition, are encouraging – Total Contract Value (TCV) of sales booked in the year was up a quarter, and we nearly tripled the TCV of new SaaS contracts booked. Six of the new deals signed exceeded $1m in initial TCV, and Annual Recurring Revenue (ARR) closed at $18m, an historic high up from $15.9m a year ago. Retention did suffer during the initial stages of the pandemic, then rebounded later in the year. Furthermore, we achieved all of this while continuing to deliver a solidly profitable and cash generative year, also reporting new highs in cash balances and closing net assets.

Sopheon is a business in transition. As our CEO Andy Michuda explains in his report, we are embarking on the development of new cloud-native products, which will contribute to the growth of our well-established enterprise solution, Accolade. These new cloud-based applications will bring value to personal and workgroup productivity alongside the corporate value points we are well known for. This strategy and investment will lead to multiple benefits. Our new applications will address needs of a work-from-home trend that is now unstoppable and will introduce a low cost, high volume market "pull" sales model by targeting innovation professionals in our target markets. This parallel sales model will produce upsell enterprise opportunities; and our strong enterprise brand and reputation will in turn feed the cloud-based application sales funnel. Our cloud products will integrate seamlessly with our current enterprise solution – and over time, we expect many existing enterprise customers to adopt the cloud applications. In addition, we fully expect to add new cloud capability and market presence through acquisitions. We will move rapidly when the right opportunity is identified.

In this context of transition, I have the bittersweet task of noting that this will be my last report as Chairman of Sopheon. I have been in this role since inception of the company. It has been a privilege to lead such talented employees, and to build a business that is making a real difference to so many major corporations. Yet, as we embrace change in our own business, the time has come to pass the baton. I can think of no better person to take on the Executive Chairman role and to steer Sopheon through the coming years than our CEO, Andy Michuda. As well as governance, Andy will focus on partnerships and acquisitions. He will be replaced as CEO by Greg Coticchia, who joined us in October 2020. We also welcome Greg to the board of the company. As we have previously shared, Greg is a recognized entrepreneur, business leader, professor and author, with over thirty years' experience in software products and services. He has great experience in leading the strategic transition we face and is now fully embedded and supported by our senior leadership team. The board and I are delighted with these two appointments. The changes I have described will take effect on 31 March 2021. My personal commitment to Sopheon is undimmed, and I will remain a non-executive director and major investor in the company as we go through this exciting new chapter in the Sopheon story.

Outlook

Although SaaS will dominate new deals and represents our future, I should emphasize that we fully expect to continue to sign some perpetual licenses, driven mainly by existing customers. Adding our year-to-date license sales and consulting services backlog to ARR takes overall revenue visibility for 2021 to $24.5m at the time of this report, compared to $21.2m a year ago. With this solid revenue base already in place for 2021, plus our strong balance sheet, a superb customer base and a team of great people – I am confident that Sopheon has a great future. We also continue to believe in sharing success with shareholders, and I am therefore pleased to announce that we will again maintain our dividend at 3.25p per share.

STRATEGY AND MARKET

Sopheon was founded with a mission to provide our customers with world-class product solutions that contribute to exceptional long-term growth and profitability through sustainable innovation. Our Accolade solution digitalizes Enterprise Innovation and other strategic initiatives that provide competitive advantage in the age of digitalization

Learnings from 2020

Our clients entered the journey to migrate their Accolade application to the cloud. The R&D-intensive industries that Sopheon targets started to accept the cloud in earnest in 2019. Sopheon entered 2020 with the introduction of new programs to assist our clients in moving their data sensitive applications managed by Sopheon's product, Accolade, to the cloud. Customers have responded favorably:

- We introduced a SaaS First program to interest new clients to favor SaaS contracts over the traditional on-premise in perpetuity agreements. The market was very receptive to the offering, resulting in over half of our net new clients in 2020 signing SaaS contracts. We are confident this shift will deepen into 2021.

- We introduced a SaaS Uplift program designed to assist active maintenance-paying clients to transition to the cloud. Our offering reduces cost to the client by removing the need for them to manage our software in their environment. It also enables faster access to new features and capabilities. Four clients converted to SaaS in 2020 as part of our introduction program, validating our business case and ROI proposition. With this success behind us we enter 2021 expecting to increase momentum in this uplift program, targeting our substantial base of perpetual on-premises clients.

Convergence of physical and software innovation has created a new unmet need. Software start-ups and high-tech leaders are disrupting every industry with new operating models. This has forced traditional companies to invest in software engineers to create "smart" products to compete. As a result, a new challenge has emerged. Companies are struggling to manage the governance between the physical and software aspects of their products to orchestrate the cross-functional product development lifecycle and go-to-market activities. If companies don't adapt and introduce new agility they will struggle to compete. We see this as a significant opportunity to Sopheon.

Accolade offers customers the agility and adaptability to handle disruption. At the time of writing our annual report last year, we knew very little about COVID-19 and its impacts on our business. What we know now is that while many industries have been devastated by COVID-19, others have thrived. Some of our target market segments were directly impacted, but the majority of our client base was not hurt by COVID-19. Sopheon has fared well due to our target focus on industries that were minimally affected, with several clients expanding their use of our Accolade software to support their newly created virtual work environment. As our CFO Arif Karimjee describes in the financial report, we did however experience a lower than normal client retention rate in the first half of 2020, as some customers took short-term cost actions. Retention rates rebounded in the second half of the year and we expect this to continue.

While the COVID-19 disruption did delay a few buying cycles during 2020, Sopheon booked more in net new contract value in 2020 than in 2019, which demonstrates the resiliency of Accolade's value proposition during times of market disruption. In addition, we successfully completed several new client deployments, including Mondelez and Orion Engineered Carbons with entirely remote customer engagements and support activities.

Sopheon's longstanding focus on specific verticals was evident again in 2020, with 100 percent of our ten net new clients coming from our target industries of chemical, consumer goods, aerospace and defense, high-tech and industrial manufacturing. New clients are well-known market leaders, among them DuPont, LG, Hochland, Clif Bar and Mondelez. While our net new pipeline was very active and opportunities continued to move through our sales process we did notice a slow down at the front of the pipeline (suspect development) through mid-2020 but that trend has since shifted in the fall and we exited 2020 with the strongest net new pipe in the history of the company

Growth Strategy

Our growth strategy focuses on three key areas:

- Organic growth through strong ecosystem networks
- Transformation to a SaaS business
- Non-organic growth

Organic Growth through Strong Ecosystem Networks

Leverage blue-chip references: to extend our Accolade software as the product of choice to digitalize enterprise innovation in our target markets. Sopheon's roster of customers is a Who's Who of the world's leading companies creating a strong and influential ecosystem. The strong brand of our solution is evidenced by the addition of new customers in food and beverage, consumer goods, chemicals and defense sectors, even in the face of COVID-19. We have continued to concentrate on our core industries to grow 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 100 percent of our new sales in 2020 came from these core verticals, proof of our team's dedication to executing on our strategy.

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. Despite the strength in this area, we have not captured our share of these markets and will therefore invest efforts to do so. In parallel, we continue to test additional industries for expansion such as the automotive and transportation sectors.

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

- Increase Portfolio Value by 75-100%
- Reduce Time to Market for new products by 15-30%
- Increase Product/Initiative Success by up to 50%
- Reduce Costs by 10-20%

Expansion from Product to Enterprise Innovation: We continue to see the use of Accolade expand to support additional business needs such as strategic transformation and business innovation initiatives spanning supply chain; smart, connected product innovation; and more. Our strengths were also recognized by Gartner in their research reports on tools for innovation management[1], product management and roadmapping[2], software for strategy execution management[3] and technologies supporting a digital twin of the organization.[4]

We are in the midst of 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 unable to master this transition will disappear. 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. Product innovation is at the heart of our customers' digital transformation and is, now more than ever, critical for business survival. Executing on digital transformation strategies and initiatives has become an imperative for these organizations. This emerging market represents a considerable addressable target market size as a subset of the overall digital transformation market, which is estimated to exceed $2 trillion by 2025.[5]

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 and 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.

Transformation to a SaaS Business

Transition the revenue model: The benefits of moving our revenue model from perpetual License and Initial Maintenance (LIM) to one emphasizing Annual Recurring Revenue (ARR) delivers higher predictability and is driving our investment in our cloud business strategy. This transformation affects every aspect of our company and all cross-functional operations, and will allow Sopheon to innovate more quickly, shorten the time 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 better meet our customers' preference for greater flexibility and alignment of their investment with consumption of the software. We will continue the Cloud transition by further executing on the programs introduced in 2020 – SaaS First selling and Cloud Uplift for on-premises clients.

Introduce new cloud offerings for product-led growth: As we continue to invest in new cloud-native SaaS capabilities, we will take advantage of opportunities to promote and sell these new capabilities as market consumable applications using a product-led model that affords product trials, freemium usage and self-service provisioning with no or low-cost implementation. This product-led approach represents a new go-to-market channel and will create a "flywheel" effect to accelerate the rate of new customer acquisition, by providing a base of new customers into which our direct sales teams can upsell larger enterprise SaaS deals. The cloud applications will integrate seamlessly with our current enterprise solution – and over time, we expect many existing enterprise customers to migrate.

Non-Organic Growth

Partnerships: Sopheon develops and maintains three types of partnerships:

- Technology Partners provide enabling technologies and integrations that broaden our solutions and reduce demands on our internal R&D effort. Microsoft® continues to be our most important technology partner and in 2020 Sopheon released a deep integration between Accolade and Microsoft Teams to enable customers to use the Teams platform for workstream collaboration on product and enterprise innovation initiatives. This integration extends user adoption to new individuals and workgroups across the enterprise and was recognized by Gartner as a model for all cloud software vendors in its 2020 report on effective remote working.[6]

- Reseller Partners allow Sopheon to sell and support Accolade in regions that require specialized, local knowledge and expertise. Our current reseller partners are Prodex Systems supporting Australia and New Zealand, PCITC supporting China, and Roadmapping Technology supporting certain sectors in the United Kingdom.

- Consulting Partners provide specialist innovation management expertise that support successful implementation of our Enterprise Innovation Management solutions. We have worked with consulting partners including Accenture, Deloitte, BCG, PWC, Atos, The Adept Group, and Stage-Gate, Inc.

M&A: We are actively researching opportunities for M&A. Our criteria are for businesses that could extend the capabilities of our solutions as an alternative to internal R&D, expand our footprint within existing customers, attract customers in new verticals, or extend geographic reach by de-risking the pitfalls of organic growth in new territories. Targets will ideally offer cloud native technologies, contribute to ARR growth, fit into the innovation / product management / strategy space we serve, and offer end-user value and an online sales channel alongside our enterprise solution salesforce.

[1] *Gartner, Market Guide for Innovation Management Tools, 30 November 2020 (ID: G00729938)*
[2] *Gartner, Market Guide for Product Management and Roadmapping Tools, 5 September 2020 (ID: G00727147)*
[3] *Gartner, Market Guide for Strategy Execution Management Software, 25 November 2019 (ID: G00379060)*
[4] *Gartner, Market Guide for Technologies supporting a DTO, 18 December 2019 (ID: G00464474)*
[5] *Research and Markets, "Digital Transformation Market to 2025"*
[6] *Gartner, "To Enable Effective Remote Work, Build Collaboration Features Natively Into your Software Products, 27 July 2020*

FINANCIAL REVIEW

As highlighted in the Chairman's Statement, sales bookings increased while top line performance for 2020 was broadly flat at $30.0m (2019: $30.3m) despite twin headwinds, being the incidence of the coronavirus pandemic, and also the revenue impact of migrating the business towards a SaaS model.

Trading Performance

Total license order volume (including SaaS deals) remained solid at 43 (10 new) license transactions compared to 47 (18 new) the year before; however, the make-up of those deals changed sharply – 22 were SaaS compared to 9 the year before; and 8 (6 new) were at the $1m level or more compared to just 2 (1 new) the year before. Major wins announced included Mondelez, LG, Orion Engineered Carbons and DuPont. These metrics demonstrate both commercial traction with enterprise class accounts, and SaaS traction across the board.

The TCV of SaaS business almost tripled from $2.4m to $6.6m, contributing strongly to ARR growth and underpinning the conversion of the business to a recurring model. Overall revenue recognized from recurring relationships – maintenance, hosting and SaaS – rose to $17.3m from $15.5m in 2019, and ARR at the end of the year had risen to $18.0m (2019: $15.9m). In tune with these trends, perpetual license recognition was $3.0m compared to $5.8m the year before. Consulting services revenue, which is recognized as it is delivered, was $9.7m compared to $9.3m the year before.

Stepping back from the detailed movements by category, the TCV of all contracts signed in 2020 rose by 25 percent to $21.2m.

SaaS and ARR

As noted above, we took two deliberate steps to accelerate SaaS signings in 2020. For new customers, we successfully transitioned the sales team to a "SaaS First" approach where all new customers are encouraged to adopt the SaaS model. For existing perpetual customers that do not host with Sopheon, we have developed a "Cloud Lift" program to encourage them to upgrade their perpetual license to a SaaS license, delivering good ROI by taking on hosting and certain managed services. Four perpetual customers took advantage of Cloud Lift during 2020. We believe this program will gain market momentum due to a market-wide trend to remove corporate IT infrastructure and shift this burden to vendors.

As highlighted by the metrics above, the conversion of Sopheon's revenue model to SaaS accelerated during 2020 alongside the overall growth in bookings. ARR growth was held back by gross retention at 91.5 percent (2019: 94.2 percent). Although respectable by most standards, it was lower than we are used to but unsurprising given the challenging market conditions for some of our customers. We do note however that two-thirds of the churn value happened in the first half of the year, with a rebound to normal levels during the second half. Our customer base reports they are generally satisfied, with our net promoter ("NPS") surveys recording an overall NPS score of 35 in 2020. Down on 2019's score of 40, a score of 35 is still considered excellent for B2B enterprise software. Our customers remain keen to take on new functionality, with 94 percent of them on Accolade versions 12 or 13, the current supported releases. Further underlining the strength of customer relationships and the appeal of the software, we note that there were 33 license orders from existing customers during the year.

Seasonality and Geography

The revenue calendarization pattern broadly held to experience with the second half of the year accounting for 54 percent of revenues (2019: 55 percent and 2018: 53 percent). As the business migrates to a more recurring model, we expect this seasonality to decline in importance; however, looking at sales bookings rather than recognized revenues, the final quarter continues to dominate with 44 percent of TCV signed (2019: 48 percent).

Though our core markets of the United States and Europe dominate revenues, we continue to see traction in other locations with signings in Korea, Canada, Australia, Japan and Turkey. Our activities in the Pacific region continue to be managed through partners while the broader Americas, Europe and Middle

East markets are addressed by our direct sales teams. Unlike 2019, which saw our performance overweight in the United States compared to the past, 2020 was more balanced across the two main regions both in terms of overall revenues and major deal signatures. Overall European revenues including recurring revenues were 37 percent of the total compared to 32 percent the year before.

Gross Margin

Gross margin was 69.8 percent, compared to 70.1 percent in 2019. This remains well within the historical range. Gross margin is calculated after deducting 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. As in previous years, we maintained use of subcontractors last year alongside some new hires, allowing for greater flexibility.

Pipeline

Revenue visibility for the year now stands at $24.5m compared to $21.2m at this time a year ago. This is quite a step up, supported by ARR growth already referenced. In addition, we have seen interesting development in the sales pipeline. By the end of 2019, it was over 50 percent higher year on year. By June 2020, it had dipped a little, but we saw a rebound in the second half of the year, and it ended 2020 up another 10 percent compared to the 2019 closing level. Within the pipeline, we continue to show rising levels of SaaS opportunities and increasing numbers of larger deals, all in line with the overall strategy.

Research and Development Expenditure

Overall expenditure in product development in 2020 increased again by approximately $0.5m to $6.9m. These amounts can be compared to the headline research and development reported in the income statement showing an increase from $5.7m to $5.9m; the differences are due to the effects of capitalization and amortization of development costs.

This continued expansion of resources will permit Sopheon to embark on the cloud application development strategy that Andy has described in his report. We are maintaining investment in our core enterprise Accolade solution, while also developing cloud-native applications that will bring multiple benefits in the short and medium term. Overall, the amount of 2020 research and development expenditure that met the criteria of IAS38 for capitalization was $3.7m (2019: $3.0m) offset by amortization charges of $2.7m (2019: $2.3m). 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 2020 are largely attributable to the Group's investment in the Accolade 13.1, 13.2 and 13.3 versions, and our first cloud-native release. The Accolade 13.1 and 13.2 releases were issued during 2020; the other two will be released in 2021.

Other Operating Costs

Payroll costs continue to 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. Our original 2020 plans had ambitious hiring goals, but when the pandemic struck, we froze hiring for several months. Nevertheless, we ended last year with 169 staff, compared to 162 at the end of 2019, many of whom were hired late in the year. Average headcount for the year was 164 (2019: 160). Several recruits over the past year were senior. The higher overall wage costs of $1.4m as reported in Note 7 of the financial statements reflects these additional staff, the annual pay adjustment, and the cost of our corporate bonus scheme, for which all non-sales staff in the company are eligible. The bonus is mainly linked to annual EBITDA goals, and is paid in the following year. In parallel, subcontracting costs rose by approximately $0.4m. Historically, we held back from offshoring technical roles due to management and productivity concerns linked to our smaller scale. This started to change in 2019, and we now have a team of ten working in India through an outsourcing firm to support both consulting and development efforts, more than double the year before. We made significant savings with non-payroll costs which were $1.1m lower thanks mainly to reduced travel costs.

Switching to a functional view, specific comments regarding consulting operations and research and development costs are noted above. Overall costs in the sales and marketing area increased by approximately $0.3m. This mainly reflects increases in both product marketing and marketing communications and commercial leadership, offset by lower commission and incentive payments in the sales area. Administration costs have fallen slightly by just over $0.1m with higher staff costs in the IT area offset by lower overheads and share option charges. This area includes all other overheads, office costs, regulatory and compliance costs, and depreciation, as well as the full impact of the notional charge for share option grants, which is allocated entirely to this caption.

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.

Results and Corporate Tax

Adjusted EBITDA (Earnings before interest, tax, depreciation, amortization and employee share-based payment charges) 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 2020 moving to $5.9m, from $6.4m in 2019. Profit before tax reduced to $1.7m (2019: $2.5m) with the larger movement due mainly to the higher amortization associated with capitalized development costs.

The tax charge of $0.2m (2019: $0.4m credit) reported in the income statement comprises two main elements. Although Sopheon benefits from accumulated tax losses in several jurisdictions including at the US federal level, this is not universal, and accordingly a current tax charges of approximately $0.1m each was incurred in Germany and for state taxes in the US. In addition, a $2.6m deferred tax asset is recognized at both 31 December 2019 and 2020, of a total potential asset of $11.1m (2019: $10.6m).

Altogether this leads to a profit after tax of $1.5m (2019: $2.0m). This has also resulted in profit per ordinary share on a fully diluted basis of 14 cents (2019: 19 cents).

Although the impact of COVID-19 on Sopheon has been limited compared with many other organizations, we are closely monitoring its effect on the business as the pandemic continues to affect the global economy. This includes modelling the effects of various revenue scenarios with associated cash flow forecasts for a period in excess of 12 months. Assessment of the impact of COVID risks on the Group going concern assumption are set forth in the Notes.

Dividend

The board is pleased to maintain Sopheon's dividend at 3.25 pence per share for the year ended 31 December 2020 (2019: 3.25p). We believe this level balances the Group's tighter bottom line last year, and the challenging global economic environment, with the positive commercial traction, cash generation and balance sheet strength that Sopheon nevertheless delivered. Subject to approval by the company's shareholders at the annual general meeting scheduled for 10 June 2021, the dividend will be paid on 9 July 2021 with a record date of 11 June 2021 and a corresponding ex-dividend date of 10 June 2021.

Facilities and Assets

As noted last year, the board allowed the Group's revolving line of credit facility with Silicon Valley Bank to lapse in February 2020, in view of substantial net cash balances on hand. As detailed below cash levels rose further during 2020 in spite of the tough environment. 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 $7.9m (2019: $6.9m) at the end of the year. This includes (i) $6.9m being the net book value of capitalized research and development (2019: $5.9m) and (ii) an additional $1.0m (2019: $1.0m) being goodwill arising on acquisitions completed in previous years. As stated above in our discussion of research and development costs, capitalization and amortization have been broadly in balance for a number of years; however, capitalization has accelerated, and amortization has yet to catch up, as development resources have expanded over the last couple of years. Our spend on tangible fixed assets was held to $0.4m last year (2019: $0.3m) and this broadly equaled depreciation, resulting in net book value staying flat at $0.5m at the end of the year (2019: $0.5m).

As described in Note 1, the adoption of IFRS 16 in 2019 required 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 net book value of right-of-use assets of $1m (2019: $1.6m) and corresponding lease liabilities of $1.1m (2019: $1.6m) at 31 December 2020. Notional amortization and interest charges in connection with the above recognized in the income statement were approximately $0.7m (2019: $0.8m).

Consolidated net assets at the end of the year stood at $30.2m (2019: $27.9m), an increase of $2.3m and including net current assets of $18.7m (2019: $17.2m). Within the net current asset position, net cash at 31 December 2020 amounted to $21.7m (2019: $19.4m). Approximately $9.1m was held in US Dollars, $10.2m in Euros and $2.4m in Sterling. The Group has no debt (excluding notional debt from the adoption of IFRS 16).

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 *$'000*	*2019* *$'000*
Revenue	**29,996**	**30,254**
Cost of sales	(9,057)	(9,043)
Gross profit	**20,939**	**21,211**
Sales and marketing expense	(9,092)	(8,806)
Research and development expense	(5,894)	(5,682)
Administrative expense	(4,178)	(4,305)
Operating profit	**1,775**	**2,418**
Finance income	25	166
Finance expense	(93)	(127)
Profit before tax	**1,707**	**2,457**
Income tax expense	(211)	(409)
Profit for the year	**1,496**	**2,048**
Earnings per share - basic	14.68c	20.16c
Earnings per share - diluted	14.06c	19.20c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 *$'000*	*2019* *$'000*
Profit for the year	**1,496**	**2,048**
Other comprehensive income / (expense)		
Exchange differences on translation of foreign operations	693	(41)
Total comprehensive income for the year	**2,189**	**2,007**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2020

	2020 *$'000*	*2019* *$'000*
Assets		
Non-current assets		
Property, plant and equipment	528	510
Right-of-use assets	1,027	1,553
Intangible assets	7,863	6,874
Deferred tax asset	2,557	2,557
Other receivables	19	123
	11,994	**11,617**
Current assets		
Trade and other receivables	14,566	13,000
Cash and cash equivalents	21,718	19,433
	36,284	**32,433**
Total assets	**48,278**	**44,050**
Liabilities		
Current liabilities		
Trade and other payables	5,077	4,238
Lease liabilities	515	643
Contract liabilities	11,985	10,337
	17,577	**15,218**
Non-current liabilities		
Lease liabilities	546	936
Total liabilities	**18,123**	**16,154**
Net assets	**30,155**	**27,896**
Equity		
Share capital	3,133	3,126
Capital reserves	9,398	8,942
Profit and loss account and translation reserve	17,624	15,828
Total equity	**30,155**	**27,896**

CONSOLIDATED CONDENSED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

	2020 *$'000*	*2019* *$'000*
Operating activities		
Profit for the year	1,496	2,048
Adjustments for non-cash and financing items	4,087	3,985
Movements in working capital	991	1,021
Net cash from operating activities	6,574	7,054
Investing activities		
Finance income	25	166
Purchases of property, plant and equipment	(367)	(345)
Development costs capitalized	(3,658)	(3,010)
Net cash used in investing activities	(4,000)	(3,189)
Financing activities		
Issue of shares	52	105
Repayment of borrowings	-	(29)
Movement in lines of credit	-	(325)
Lease payments	(664)	(672)
Finance expense	(93)	(127)
Dividends paid	(429)	(430)
Net cash used in financing activities	(1,134)	(1,478)
Effect of foreign exchange rate changes	845	(40)
Net increase in cash and cash equivalents	**2,285**	**2,347**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	Share Capital *$'000*	*Capital Reserves* *$'000*	*Translation Reserve* *$'000*	*Retained Profits* *$'000*	*Total* *$'000*
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 1 January 2020	**3,126**	**8,942**	**9**	**15,819**	**27,896**
Total comprehensive income for the year	-	-	693	1,496	2,189
Issue of shares	7	45	-	-	52
Share-based payments	-	411	-	36	447
Dividends paid	-	-	-	(429)	(429)
At 31 December 2020	**3,133**	**9,398**	**702**	**16,922**	**30,155**

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 2019 or 2020. Statutory accounts for the years ended 31 December 2019 and 31 December 2020, which were approved by the directors on 23 March 2021, have been reported on by the Independent Auditors. The Independent Auditors' Reports on the Annual Report and Financial Statements for each of 2019 and 2020 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.

The Annual Repor (including the statutory financial statements) for the year ended 31 December 2019 have been filed with the Registrar of Companies. The Annual Report (including the statutory financial statements for the year ended 31 December 2020 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 at www.sopheon.com/financial-reports/.

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 in conformity with the requirements of the Companies Act 2006. 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 2019, except for those that relate to new standards and interpretations effective for the first time for periods beginning on (or after) 1 January 2020. There are deemed to be no new standards, amendments and interpretations to existing standards, which have been adopted by the Group that have had a 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 consolidated financial statements have been prepared on a going concern basis. The directors have at the time of approving the financial statements, a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The COVID-19 pandemic has so far had limited impact on our business and the board believes that the business is able to navigate through the continued impact of the pandemic due to the strength of its customer proposition and business partnerships, statement of financial position and the net cash position of the Group.

The current economic conditions continue to create uncertainty, particularly over (a) the level of customer and potential customer engagement; and (b) the level of new sales to new customers. The pandemic has had a widespread impact economically, with potential for causing delays in contract negotiations and/or cancelling of anticipated sales and an uncertainty over cash collection from certain customers. As a consequence, the Group has carried out detailed forecast stress testing in order to consider how much forecasts have to reduce by in order to cause cash constraints, and also to consider the likelihood of this scenario occurring. This assessment has also included the Group's actual cash holdings as of the date of the approval of these financial statements and financing alternatives available to the Group. Overall, these cash-flow forecasts, which cover a period of at least 12 months from the date of approval of the financial statements, foresee that the Group will be able to operate within its existing facilities. Nevertheless, there is a risk that the Group will be impacted more than expected by reductions in customer confidence. If sales and settlement of existing debts are not in line with cash flow forecasts, the directors have the ability to identify cost savings if necessary, to help mitigate the impact on cash outflows.

Having assessed the principal risks and the other matters discussed in connection with the going concern statement, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial information.

NOTES

3. Segmental Analysis

All of the Group's revenue in respect of the years ended 31 December 2020 and 2019 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.

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 2020	*North America*	*Europe*	*Total*
	$'000	*$'000*	*$'000*
Income Statement			
External revenues – by location of operations	18,938	11,058	29,996
Operating profit before interest and tax	2,259	(484)	1,775
Profit before tax	2,238	(531)	1,707
Finance income	45	(20)	25
Finance expense	(66)	(27)	(93)
Depreciation and amortization	(3,306)	(399)	(3,705)
Adjusted EBITDA	5,933	(6)	5,927
Balance Sheet			
Fixed asset additions	277	90	367
Capitalization of internally generated development costs	3,658	-	3,658
Total assets	29,408	18,870	48,278
Total liabilities	(11,672)	(6,451)	(18,123)

Year ended 31 December 2019	*North America*	*Europe*	*Total*
	$'000	*$'000*	*$'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)

NOTES

3. Segmental Analysis (continued)

Revenues attributable to customers in North America in 2020 amounted to $18,332,000 (2019: $20,003,000). Revenue attributable to customers in the rest of the world amounted to $11,664,000 (2019: $10,245,000) of which $9,500,000 (2019: $8,762,000) was attributable to customers in Europe.

4. Revenue from contracts with customers

All of the Group's revenue in respect of the years ended 31 December 2020 and 2019 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.

	2020	*2019*
	$'000	*$'000*
Perpetual software licenses	3,021	5,401
Consulting and implementation services	9,680	9,355
Maintenance, software subscriptions & hosting	17,295	15,498
	29,996	30,254

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 adding back net interest payable of $68,000 (2019: deducting net interest receivable of $39,000) and adding back depreciation and amortization charges amounting to $3,705,000 (2019: $3,404,000) and employee share-based payment charges of $447,000 (2019: $620,000) to the profit before tax of $1,707,000 (2019: $2,457,000).

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 $447,000 (2019: $620,000). 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.

NOTES

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 the Group’s US subsidiaries in respect of periods prior to that date has been fully refunded.

At 31 December 2020, tax losses estimated at $54m (2019: $52m) were available to carry forward by the Sopheon Group, arising from historical losses incurred. These losses have given rise to a deferred tax asset of $2.6m (2019: $2.6m) and a further potential deferred tax asset of $8.5m (2019: $8.0m), based on the tax rates currently applicable in the relevant tax jurisdictions. An aggregate $8.8m (2019: $8.8m) of these losses are subject to restriction under section 382 of the US Internal Revenue Code due to historical changes of ownership.

8. Earnings per Share

The calculation of basic earnings per ordinary share is based on a profit of $1,496,000 (2019: $2,048,000), and on 10,193,000 (2019: 10,156,000) 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 10,637,000 (2019: 10,667,000).

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 $3,658,000 (2019: $3,010,000), and amortization of $2,669,000 (2019: $2,342,000) 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.