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SOPHEON PLC

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

RESULTS FOR THE 6 MONTHS TO 30 JUNE 2021

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 2021 together with a business review and outlook statement for the second half of the year.

HIGHLIGHTS:

- Revenue up 19% over prior year - $16.5m vs $13.9m in H1 2020
- ARR[1] of $19.8m (H1 2020: $16.5m) demonstrating strong progress on SaaS transition goals
- Gross ARR retention for the year to date at 97% (H1 2020: 94%)
- Full year 2021 revenue visibility[2] is now at $31.2m (last year at this time: $25.5m)
- TCV[3] of signed contract bookings in the first half of the year were 1.3X the comparable prior year period, and TCV of SaaS bookings 1.5X
- Adjusted EBITDA[4] of $2.8m (H1 2020: $2.6m)
- New senior leadership in product, marketing and sales, with increased investments in product and marketing initiatives planned
- Net cash of $24.1m (H1 2020: $21.9m) and the Group is debt free

Sopheon's Executive Chairman, Andy Michuda said: *"Last year we embarked on a strategy to migrate to a recurring revenue model by prioritizing SaaS contracts for new customers and encouraging existing customers to convert. It is very rewarding to report rising commercial traction across our core performance metrics – with revenue, TCV, ARR, retention, and current year visibility all showing significant progress and in many cases at historical highs, underpinning our expectations for the year. As expected, profit levels are rising more slowly through the SaaS transition period, reflecting the switch of revenue model and the rising investment in the business. Our key financial metrics and progress against strategic initiatives, coupled with our substantial cash reserves give us confidence that we are on the right path to deliver strong long term shareholder value."*

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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] ARR is the value of the group's recurring revenue including SaaS, maintenance and hosting normalized for a single calendar year
[2] Revenue visibility is defined in Note 5.
[3] TCV is total contract value of sales bookings in the period
[4] Adjusted EBITDA is defined in Note 3

CHAIRMAN'S STATEMENT

TRADING PERFORMANCE

First half revenue was $16.5m compared to $13.9m last year, almost 19% higher, and partially due to the impact of our ARR growth from prior years. Another step up was achieved in the TCV of total sales bookings, and will similarly contribute to future revenue growth. During the period we closed 35 software transactions – this compares to 13 for the same period last year, but with a lower average deal size. Overall, three customers exceeded $1m in booking value in the first half of this year, including service orders, compared to four in the first half of 2020. As last year, all our new customers opted for SaaS, underpinning our move to the recurring revenue model, and total SaaS bookings for the half year increased by 48%. In spite of our continued transition to a SaaS revenue model, extensions from the base will continue to drive a degree of perpetual licensing for the foreseeable future. Perpetual license and service bookings were also up period to period – leading to total TCV being up by 28%. Our "Cloud Lift" program, introduced last year, continues to convert existing perpetual customers to a SaaS license, on the back of a strong ROI offering. Four perpetual customers took advantage of Cloud Lift during all of 2020, and a further five in the first half of 2021. We believe this program will continue to gain momentum due to a market-wide trend to remove corporate IT infrastructure and shift this burden to vendors.

Retention levels have improved and our ARR gross retention rate stands at 97% year to date up from 94% at this time last year. Reasons for non-renewal included M&A and re-organization; we are seeing less cost-control driven attrition in 2021 compared to last year as confidence builds post pandemic. New orders significantly exceed the attrition, and ARR now stands at $19.8m up from $16.5m last June and compared to $18.0m at the start of this year. We have continued to book orders from new and existing customers since the period end, and we are pleased to report that revenue visibility today stands at $31.2m compared to $25.5m at this time last year. We expect some continued seasonality of sales, which typically cluster in the fourth quarter however due to our progress in migrating to SaaS contracts we expect the 2021 revenue impact to be less marked than in the past. The geographical split of revenue remains roughly two-thirds North America and one-third Europe and rest of world – with the rest of world element relatively active this year thanks mainly to new relationships in the far east. Further analysis of revenue is given in Note 3 of the financial statements.

MARGIN AND RESULTS

Gross margin for the period rose to 71% (2020: 67%) reflecting a slightly lower proportion of consulting revenue. 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 and support teams, and associated subcontractors. Following the lull during the main peaks of the pandemic last year, competition for technical staff in particular has returned to the market and costs of employment in this area continue to accelerate. While we have been successful in bringing in a substantial number of high quality recruits, we have also experienced staff turnover. Accordingly, average headcount for the first half of the year was 169 (H1 2020: 162) however we did increase subcontracting in all areas which has compensated for the limited staff growth. Operationally, our remote working methodologies have been very successful, and the vast majority of staff continue to work from home with minimal impact to the business.

Primary expense categories are showing an increase compared to the prior year. This is due to the following factors all of which have been alluded to – greater and more senior headcount, continued upward pressure on compensation costs, additional subcontracting, and higher sales leading to higher variable pay. In particular, based on the first half performance and unlike in 2020, the half year point includes a full provision for incentive costs. The Group's main bonus scheme is based on achievement of both EBITDA and ARR goals. In addition to these operational points, administrative expenses (which includes all other overheads, office costs, regulatory and compliance costs, and depreciation) were depressed in 2020 through a combination of exchange gains on our substantial cash balances that have reversed in 2021, and also due to COVID-related subsidies in the Netherlands that we have not recorded in the current period.

Overall, profit before tax reported for the half-year period was $0.5m (H1 2020: $0.5m). This result includes net interest, depreciation and amortization and share-based payment costs amounting to $2.3m (H1 2020: $2.1m). The Adjusted EBITDA result for the first half of 2021, which does not include these elements, was accordingly $2.8m (H1 2020: $2.6m). A modest adjustment has been recorded to the deferred tax asset due to changes in UK tax rates, and provision has been made for approximately $0.1m in current tax for US state taxes and German corporation tax (H1 2020: $0.1m), giving a final profit after tax of $0.4m compared to $0.3m the year before. This has translated to basic and diluted EPS of 3.57 and 3.46 cents respectively (H1 2020: 3.23 and 3.10).

BALANCE SHEET AND CORPORATE

Net assets at 30 June 2021 stood at $30.8m (30 June 2020: $27.9m / 31 December 2020: $30.1m), with cash at the end of the period rising to $24.1m (30 June 2020: $21.9m / 31 December 2020: $21.7m) underlining the continued positive cash generation in the business. Of the cash balance, approximately $7.8m was held in US Dollars, $11.8m in Euros and the balance of $4.5m in Sterling. The Group has no borrowings.

Intangible assets at 30 June 2021 stood at $8.6m (30 June 2020: $7.3m / 31 December 2020: $7.9m). The total includes (i) $7.6m being the net book value of capitalized research and development (30 June 2020: $6.3m) and (ii) $1.0m (30 June 2020: $1.0m) being the net book value of acquired intangible assets. In addition, as further detailed in Note 6 of the financial statements, in prior periods the Group recognized a $2.6m deferred tax asset, of a total potential deferred tax asset of $10.6m. No change to the asset is proposed at this time.

COVID notwithstanding, on the back of our continued strong performance and substantial cash reserves, the Board decided to maintain the Group's dividend at 3.25p per share ($0.4m in total). This was approved by the shareholders in the Annual General Meeting held on 10 June 2021, and paid on 9 July 2021.

STRATEGY & OPERATIONS

As described in our 2020 annual report, our growth strategy is built around three core themes:

- Organic growth through strong ecosystem networks – leveraging our blue-chip references for new sales, and continuing expansion of our solution from product to enterprise innovation. As noted above, substantial marketing investments are being made to underpin this broader opportunity.

- Transition to a SaaS business – transitioning the revenue model to a more recurring revenue model, and developing new cloud offerings that will facilitate product-led go-to-market approaches. The SaaS revenue model aspect of this has been proceeding very successfully with both new and existing customers, and we look forward to launching our first cloud-native modules at the end of this year.

- Non-organic growth – building on our technology, consulting and reseller partnerships, and extending our capabilities and footprint through disciplined M&A. During the period we have engaged with over 20 potential targets. Many have been rejected for a variety of reasons however, our pursuits to find a strategic and financial match continue to be active.

We have ambitious investment plans in the second half of the year – in both product development and marketing and communication expenses. Given the successful ongoing transition of the business to a SaaS model, and the strengthening market opportunities that we reference below, we believe now is the time to pursue more aggressive market visibility. Our view is that buyer behaviors have changed permanently, and now rely much more on online research and resources to identify and qualify suppliers. Accordingly, we are launching several parallel initiatives covering PR, digital presence and campaigns, messaging refresh and brand refresh. These will be new and material investments for Sopheon during the second half of the year and will continue into 2022 and we feel that our healthy cash position gives us plenty of flexibility to pursue this. The goal is to accelerate lead generation and top-line growth.

To underline and deliver on the organic and transformational initiatives, Greg Coticchia was appointed CEO earlier in the year, giving Andy Michuda capacity to focus on the non-organic areas. This was quickly followed by the appointments of Mike Bauer as Chief Product Officer, John Beischer as Americas VP of Sales, and Ann Marie Beasley as Chief Marketing Officer amongst others. Each one of these appointees brought an impressive track record and their experience, creativity, and drive are valuable assets to Sopheon during this exciting period of transformation and growth.

Alongside marketing and organizational change, we have continued to drive product investments. A milestone was the launch of Accolade® for Smart Products, the first innovation management solution to bring together traditionally siloed software and physical product development – a new SaaS-based solution that enables companies to develop innovative digitally-enabled physical products in a new collaborative and efficient way with speed. We were also proud to earn Authority to Operate (ATO) from the US Navy, meaning that Sopheon is now listed on the marketplace maintained by the Federal Risk and Authorization Management Program (FedRAMP) for cloud products and services, permitting dozens of other departments to leverage the Navy's security authorization. Most recently, we announced the release of Accolade 14.0, which brought major advancements in third party integration and a richer user experience alongside several other improvements.

In parallel, we have embarked on the development of new cloud-native products, which will bring value to personal and workgroup productivity alongside the corporate value points we are well known for. Our cloud products will integrate seamlessly with our current enterprise solution – and as their capabilities become comprehensive over time, we expect many existing customers will migrate to the cloud solution.

Sopheon's vision, strategy and strong performance is recognized by key industry analysts with our inclusion in Gartner's 2021 *Magic Quadrant for Strategic Portfolio Management*, 2020 *Market Guide for Innovation Management Tools*, and 2020 *Competitive Landscape: Product Management Tools*; as well as Forrester's 2020 *Forrester Wave: Innovation Management Platforms*, and 2020 *Planning and Delivery Ecosystem: The Central Nervous System for Delivering Business Strategy*.

OUTLOOK

Last year we embarked on a strategy to migrate to a recurring revenue model by prioritizing SaaS contracts for new customers and encouraging existing customers to convert. 2020 was our first full year implementing this strategy. Performance has remained solid in the face of the pandemic, and downward revenue pressure caused by the SaaS strategy itself - transition to SaaS reduces revenue recognition in the first year compared to traditional perpetual licenses, but in return secures a higher quality and predictable ongoing recurring revenue stream. More recently, we have embarked on transformation initiatives to more closely align our operations and our offering, both in terms of how we intend to generate sales leads, and of how we intend to leverage the cloud to increase the appeal and adoption of our solutions at both individual and corporate levels. Our new leadership, embedded in the last 12 months, is spearheading these new marketing and product strategies. Finally and in parallel, we look to accelerate our business through partnerships and M&A.

It is very rewarding to report rising commercial traction across our core performance metrics – with revenue, TCV, ARR, retention, and current year visibility all showing significant progress and in many cases at historical highs, underpinning our expectations for the year. As expected, profit levels are rising more slowly through the SaaS transition period, reflecting the switch of revenue model and the rising investment in the business. Our key financial metrics and progress against strategic initiatives, coupled with our substantial cash reserves give us confidence that we are on the right path to deliver strong long term shareholder value.

Andy Michuda
Executive Chairman

24 August 2021

CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021 AND 30 JUNE 2020

	Note	*30 June 2021 $'000 (unaudited)*	*30 June 2020 $'000 (unaudited)*
Revenue	3	**16,531**	**13,868**
Cost of sales		(4,775)	(4,532)
Gross profit		**11,756**	**9,336**
Sales and marketing expense		(5,424)	(4,355)
Research and development expense		(3,265)	(2,692)
Administrative expense		(2,498)	(1,796)
Operating profit		**569**	**493**
Finance income		-	40
Finance expense		(51)	(54)
Profit for the period before tax	3	**518**	**479**
Income tax charge	7	(148)	(150)
Profit for the period		**370**	**329**
Earnings per share - basic in cents	4	3.57c	3.23c
Earnings per share - fully diluted in cents	4	3.46c	3.10c

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2021 AND 30 JUNE 2020

	2021 $'000 (unaudited)	*2020 $'000 (unaudited)*
Profit for the period	**370**	**329**
Amounts that may be recycled in future periods		
Exchange differences on translation of foreign operations	(239)	(229)
Total comprehensive profit for the period attributable to the owners	**131**	**100**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2021, 31 DECEMBER 2020 AND 30 JUNE 2020

	Note	*30 June 2021 $'000 (unaudited)*	*31 Dec 2020 $'000 (audited)*	*30 June 2020 $'000 (unaudited)*
Assets				
Non-current assets				
Property, plant and equipment		590	528	482
Right-of-use assets		1,039	1,027	1,281
Intangible assets	6	8,586	7,863	7,273
Deferred tax asset	7	2,569	2,557	2,557
Other receivable		19	19	19
		12,803	**11,994**	**11,612**
Current assets				
Trade and other receivables		9,621	14,566	7,472
Cash and cash equivalents		24,066	21,718	21,889
		33,687	**36,284**	**29,361**
Total assets		**46,490**	**48,278**	**40,973**
Liabilities				
Current liabilities				
Contract liabilities		9,624	11,985	8,494
Lease liabilities		614	515	607
Trade and other payables		4,557	5,077	2,853
Dividends payable	8	470	-	410
		15,265	**17,577**	**12,364**
Non-current liabilities				
Lease liabilities		452	546	704
Total liabilities		**15,717**	**18,123**	**13,068**
Net assets		**30,773**	**30,155**	**27,905**
Issued capital and reserves attributable to the owners of the parent				
Share capital		3,216	3,133	3,133
Capital reserves		9,965	9,398	9,227
Translation reserve		463	702	(220)
Retained earnings		17,129	16,922	15,765
Total equity		**30,773**	**30,155**	**27,905**

CONSOLIDATED CASH FLOW STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021 AND 30 JUNE 2020

	2021 *$'000* *(unaudited)*	*2020* *$'000* *(unaudited)*
Operating Activities		
Profit for the period	370	329
Finance income	-	(40)
Finance expense	51	54
Depreciation of property, plant and equipment	145	182
Depreciation of right-of-use assets	320	346
Amortization of intangible assets	1,443	1,280
Share based payment expense	325	268
Income tax charge	148	150
Operating cash flows before movement in working capital	2,802	2,569
Decrease in receivables	4,916	5,544
Decrease in payables	(2,781)	(3,136)
Cash generated from operations	4,937	4,977
Income taxes paid	(223)	(181)
Net cash from operating activities	4,714	4,796
Investing Activities		
Finance income	-	40
Purchases of property, plant and equipment	(213)	(150)
Capitalization of development costs	(2,166)	(1,679)
Net cash used in investing activities	(2,379)	(1,789)
Financing Activities		
Exercise of share options	632	51
Lease payments	(351)	(367)
Finance expense	(25)	(27)
Net cash from/(used in) financing activities	256	(343)
Net increase in cash and cash equivalents	**2,591**	**2,664**
Cash and cash equivalents at the beginning of the period	**21,718**	**19,433**
Effect of foreign exchange rate changes	(243)	(208)
Cash and cash equivalents at the end of the period	**24,066**	**21,889**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2021, 31 DECEMBER 2020 AND 30 JUNE 2020

	Note	*Share Capital $'000*	*Capital Reserves $'000*	*Trans-lation Reserve $'000*	*Retained Earnings $'000*	*Total $'000*
At 1 January 2020 (audited)		**3,126**	**8,942**	**9**	**15,819**	**27,896**
Profit for the period		-	-	-	329	329
Other comprehensive income[1]		-	-	(229)	-	(229)
Total comprehensive income		-	-	(229)	329	100
Dividends payable	8	-	-	-	(410)	(410)
Issues of shares		7	44	-	-	51
Share based payments		-	268	-	-	268
Exercise of share options		-	(27)	-	27	-
At 30 June 2020 (unaudited)		**3,133**	**9,227**	**(220)**	**15,765**	**27,905**
Profit for the period		-	-	-	1,148	1,148
Other comprehensive income[1]		-	-	922	-	922
Total comprehensive income		-	-	922	1,148	2,070
Issues of shares		-	1	-	-	1
Share based payments		-	179	-	-	179
Exercise of share options		-	(9)	-	9	-
At 31 December 2020 (audited)		**3,133**	**9,398**	**702**	**16,922**	**30,155**
Profit for the period		-	-	-	370	370
Other comprehensive income[1]		-	-	(239)	-	(239)
Total comprehensive income		-	-	(239)	370	131
Dividends payable	8	-	-	-	(470)	(470)
Issues of shares		83	549	-	-	632
Share based payments		-	325	-	-	325
Exercise of share options		-	(307)	-	307	-
At 30 June 2021 (unaudited)		**3,216**	**9,965**	**463**	**17,129**	**30,773**

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 2021 comprise the Company and its subsidiaries (together referred to as the "Group").

The Board of Directors approved this interim report on 24 August 2021.

2. PRINCIPAL ACCOUNTING POLICIES

Basis of preparation and accounting policies

These condensed 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") in conformity with the requirements of the Companies Act 2006. 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 2020 Annual Report. The financial information for the half years ended 30 June 2021 and 30 June 2020 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 ('the Group') are prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The statutory Annual Report and Financial Statements for 2020 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 2020 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 31 December 2020 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 2021 and will be adopted in the 2021 financial statements. There are deemed to be no new and amended standards and/or interpretations that will apply for the first time in the next annual financial statements that are expected to have a material impact on the Group.

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. As is widely understood and discussed in more detail in note 9 below, the COVID-19 global pandemic has had a widespread impact economically, with potential for causing delays in contract negotiations and/or cancellation of anticipated sales, as well as uncertainty over cash collection from certain customers. Since the start of the pandemic, the Group proved to be resilient in the face of such pressures; however, the directors have continued to perform detailed forecast stress testing, assessing how much forecasts would need to reduce by in order to cause cash constraints, and also to consider the likelihood of this scenario occurring. The results of this analysis continue to give the directors comfort that a scenario which would cause these cash restrictions is remote, and therefore not a realistic outcome to consider. This assessment has also included the Group's actual cash holdings as of the date of the approval of this report, and the financing alternatives available. The Group's cashflows are projected to be at a sufficient level to allow the Group to meet its obligations and liabilities as they fall due. Thus, the directors of the Company continue to adopt the going concern basis of accounting in preparing the financial statements.

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 software subscription, maintenance and hosting agreements are deferred creating a contract liability at the period end, and then recognized evenly over the term 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. Based on stage of completion and billing arrangement, either a contract asset or a contract liability is created at the period end.

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.

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. REVENUE, SEGMENTAL ANALYSIS AND EBITDA

All of the Group's revenues in respect of the six month periods ended 30 June 2021 and 30 June 2020 derived from the design, development and marketing of software products with associated implementation and consultancy services. The following table disaggregates 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.

Six months to 30 June	*2021*	*2020*
	$'000	*$'000*
Perpetual licenses	1,430	941
Consulting and implementation services	5,423	4,731
SaaS, maintenance and hosting	9,678	8,196
	16,531	13,868

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.

Six months to 30 June 2021	*N America*	*Europe*	*Total*
	$'000	*$'000*	*$'000*
External revenues	10,069	6,462	16,531
Profit before tax	1,832	(1,314)	518
Adjusted EBITDA	3,547	(745)	2,802
Total assets	24,899	21,591	46,490

Six months to 30 June 2020	*N America*	*Europe*	*Total*
	$'000	*$'000*	*$'000*
External revenues	8,976	4,892	13,868
Profit before tax	732	(253)	479
Adjusted EBITDA	2,327	242	2,569
Total assets	25,757	15,216	40,973

Adjusted EBITDA is arrived at after adding back net finance costs, depreciation, amortization and share-based payment expense amounting to $2,284,000 (2020: $2,090,000) to the profit before tax. Details of these amounts are set out in the consolidated cash flow statement. Adjusted EBITDA 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.

All information provides analysis by location of operations. The majority of revenue from customers in the rest of the world is recorded in the Europe segment. Profit before tax and EBITDA are stated after deducting an estimate for intra-group charges.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. EARNINGS PER SHARE

The calculation of basic earnings per ordinary share is based on earnings of $370,000 (2020: $329,000) and on 10,376,214 ordinary shares (2020: 10,178,929) 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 2021 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 2021 is 10,698,799 (2020: 10,611,854).

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 2021.

6. INTANGIBLE ASSETS

Certain development expenditure is required to be capitalized and amortized based on detailed technical criteria (note 2) rather than automatically charging such costs in the income statement as they arise. This has led to the capitalization of $2,166,000 (2020: $1,679,000), and amortization of $1,443,000 (2020: $1,280,000) during the period.

7. TAXATION

The tax charge reflects certain US state taxes and German corporate taxes. At 30 June 2021, income tax losses estimated at $54m (2020: $52m) 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 (2020: $2.6m) and a further, but currently unrecognized, potential deferred tax asset of $10.1m (2020: $8.0m), based on the tax rates currently applicable in the relevant tax jurisdictions. Much of the increase is due to the UK reverting to a 25% minimum tax rate. An aggregate $9m (2020: $9m) of these tax 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.

8. DIVIDEND

The Board has proposed a final dividend in respect of the year ended 31 December 2020 of 3.25p per share (2019: 3.25p per share). This was approved by the shareholders in the annual general meeting held on 11 June 2021 and an amount of $470,000 is shown within current liabilities in the statement of financial position as at 30 June 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. 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 2020, which contains a detailed explanation of the risks relevant to the Group on page 26, and is available at www.sopheon.com. Since the 2020 Annual Report, the Board have continued to monitor and mitigate the effects of the following international events on the Group's business:

COVID-19
In March 2020, the World Health Organization declared a global pandemic due to the COVID-19 virus that spread across the globe, causing different governments and countries to enforce restrictions on people movements, a stop to international travel, and other precautionary measures. This has had a widespread impact economically and has resulted in difficulties in certain industries and a more general need to consider whether budgets and targets previously set are realistic, with potential for delays or cancellation of anticipated sales and possible uncertainty over cash collection. The Board believes that Sopheon has navigated through the impact of COVID-19 well due to the strength and flexibility of its service proposition, its strong balance sheet and cash position, and expects this to continue for the foreseeable future.

Brexit
The UK formally left the EU on 30 January 2020. Following a transition period, on 31 December 2020 the UK and the EU entered into a Trade and Cooperation Agreement governing future trade arrangements between the parties. As the Group operates subsidiaries in many countries, there are several channels available to us to continue business with the same customers, should the need arise, with little to no effect from Brexit changes. As such, while the Directors are closely monitoring the situation, they currently deem that the effects of Brexit do not have a significant impact on the Group's operations.

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.

10. 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.

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION AS DEFINED IN ARTICLE 7 OF THE MARKET ABUSE REGULATION EU NO. 596/2014, AS RETAINED AND APPLICABLE IN THE UK PURSUANT TO S3 OF THE EUROPEAN UNION (WITHDRAWAL) ACT 2018 ("MAR").

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 2021 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 2021 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
24 August 2021

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