KRM22

Interim Results

2021

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KRM22 plc
("KRM22", the "Group" or the "Company")

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

KRM22 plc (AIM: KRM.L), the technology and software investment company, with a particular focus on risk management in capital markets, announces its unaudited interim results for the six months ended 30 June 2021 ("H1 2021" or the "Period").

Highlights

Financial

- Annualised Recurring Revenue* ("ARR") of £3.7m at 30 June 2020 (H1 2020: £4.0m)
- Total revenue recognised of £2.2m (H1 2020: £2.3m)
- Adjusted EBITDA loss** of £0.3m (H1 2020: loss of £0.3m)
- Loss before tax of £1.7m (H1 2020: £1.2m)
- Cash and cash equivalents at 30 June 2021 of £1.4m (FY 2020: £2.0m)

Operational

- Two new Market Surveillance customers
- An existing Pre-Trade Risk customer adding the Market Surveillance product to their Global Risk Platform
- A five-year renewal with a major European Bank for the Market Surveillance product, with increased ARR on an annual basis over the term of the contract
- Launch of People and Culture Risk offering in February 2021
- New partnerships signed with Waymark, to provide compliance scanning of regulatory changes, and Lexis Nexis, to provide Exchange Data News Service to the Global Risk Platform
- Soc 2 accreditation approved in March 2021

Post-Period Events

- Signed a three-year contract extension with to an existing tier one customer, with ARR of £0.4m per year, an increase in existing ARR of £0.15m per year
- Growth in ARR to £3.9m

** Annualised Recurring Revenue (ARR) is the value of contracted Software-as-a-Service (SaaS) revenue normalised to a one year period and excludes one time fees*

*** Adjusted EBITDA is the reported profit/(loss), adjusted for depreciation, amortisation, share-based payment charges and unrealised foreign currency gains/losses and non-recurring exceptional costs including impairment charges, reorganisation costs, gain on extinguishment of debt and acquisition and funding costs, gain/loss on disposal of property, plant and equipment*

Commenting on the results, Executive Chairman and CEO of KRM22, Keith Todd CBE, said:

"We have made good progress in the year expanding our offering and improving the quality of our recurring revenue while maintaining a tight handle on costs. Delays in signing some larger orders is frustrating but larger customers will lay the bedrock for further shareholder value creation in the future."

This announcement contains inside information for the purposes of Article 7 of EU Regulation 596/2014

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Carl Holmes / Kate Bannatyne / James Balicki

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About KRM22 plc

KRM22 is a closed-ended investment company which listed on AIM on 30 April 2018. The Company has been established with the objective of creating value for its investors through the investment in, and subsequent growth and development of, target companies in the technology and software sector, with a focus on risk management in capital markets.

Through its investments and the Global Risk Platform, KRM22 helps capital market companies reduce the cost and complexity of risk management. The Global Risk Platform provides applications to help address firms' market, compliance, operations and technology risk challenges and to manage their entire enterprise risk profile.

Capital markets companies' partner with KRM22 to optimise risk management systems and processes, improving profitability and expanding opportunities to increase portfolio returns by leveraging risk as alpha.

KRM22 plc is listed on AIM and the Group is headquartered in London, with offices in several of the world's major financial centres.

See more about KRM22 at www.krm22.com

CHAIRMAN'S REPORT

The Company has made progress in the first half of 2021, with new Annual Recurring Revenue ("ARR") derived from new customers, sales of new products to existing customers and existing customer contract renewals with extended contract terms and increases in ARR over the new contract term, all of which has further strengthened the quality of the Company's ARR.

Annual recurring revenue

As of the date of this report, the Company has total ARR of £3.9m. In addition to the new ARR signed in the year to date of £0.4m, the pipeline of sales opportunities remains strong with £0.5m of ARR with agreed contracts awaiting signature plus a further £0.2m in final discussion ahead of contract negotiation. We are also seeing strong engagement with new high-quality prospects. The delay in signing these contracts is frustrating but unfortunately not uncommon when dealing with global banks.

As previously announced in the update on 22 July 2021, the Company did see two customer losses worth an aggregate of £0.5m ARR, one as it transitioned legacy business to its current business model of delivering Software as a Service and a second due to the impact of a customer non-payment of invoices and therefore non-renewal.

Our new business since the start of the year includes two new Market Surveillance customers, an existing Pre-Trade Risk customer adding the Market Surveillance product to their Global Risk Platform, a five-year renewal with a major European Bank for the Market Surveillance product with increased ARR on an annual basis over the contract term and a three-year contract extension with a tier one customer for use of the Enterprise Risk Cockpit, increasing ARR by £0.1m to £0.4m per year, with the contract including an option to increase ARR further by up to £0.2m from March 2022.

Since KRM22 was set up in 2018, new business wins have increased from £0.2m in FY 2018, £0.7m in FY 2019, £0.8m in FY 2020 and £0.4m in the year to date in 2021. The Company also has further opportunities across its product suite and is anticipating increased ARR contract signings in the second half of the year.

We are working on several initiatives to reduce the time to convert opportunities to contracts including:

- Transition of our historic ARR contracts to a Master Services Agreement ("MSA") under longer-term contracts which reduces significantly the time to contact for additional sales. These, together with new business wins that are also contracted under an MSA, now represent 58% of total ARR;
- Achieving SOC2 Type 1 accreditation in March 2021 and working towards SOC2 Type 2 accreditation. This globally recognised security certification should speed up the Tier one Bank internal sign off process related to cyber security as the accreditation provides customers with confidence that their information is protected and secure; and
- Looking to expand our distribution partnerships in particular working with top tier capital markets technology suppliers to add our product offering to their own offering. These firms are already approved suppliers to tier one banks and therefore it should reduce the on boarding time to close new deals.

Our Market

The market we serve is adapting to the new norm and we anticipate an increase in new projects and opportunities particularly as we enter our customers and prospects new budgets for 2022. Most of the European and North American markets are replacements opportunities that play well with our proposition to reduce the cost and complexity of risk systems. The cryptocurrency market is an exception where there is increasing focus on professionalising the marketplace as it moves more mainstream and is seeing larger financial institutions investigating it. The Asia market still has new opportunities in addition to cryptocurrency as Chinese capital markets firms expand outside of mainland China.

Products

We have continued to invest in our products with over thirty functional and operational enhancements delivered in the year to date. This includes functionality for the first customer deployment of our new Pre Trade product that provides risk limit management integrated into the firm's electronic execution platforms though predefined authorisation workflow with full audit trail and will go live in the third quarter. We also announced partnerships with Waymark, to provide compliance horizon scanning of key regulatory changes from more than 2,500 global data sources, Kintail Consulting, to develop a People and Culture Risk Cockpit, and Lexis Nexis, to add an Exchange Data News Service to the Global Risk Platform.

Additional product features and launches for the remainder of 2021 include the release of the enhanced Risk Cockpit which will provide enriched functionality and the ability for a customer to 'self-set-up' thus allowing for "Low Touch" sales of the product. We are working with a partner company to deliver AI as a service across our suite of products, initially focusing on Market Surveillance and Operational Risk, and we will shortly be announcing our first technology and cyber risk offering delivered through the Risk Cockpit.

Selling

We have expanded the number of active prospects so that we can increase the ability to convert the sales pipeline. Actions include expanding our opportunities through distributor networks and launching new sales campaigns that leverage our Global Risk Platform capability such as the redefining of Compliance Risk with a Holistic Surveillance offering that includes four of our existing product offerings integrated into one package. In September, and in conjunction with our partner, Acuiti, the first report on the KRM22 risk sentiment will be released which will provide an initial view of the critical risk factors as seen by the community we address.

Vision and mission

Our vision 'A world in which organisations operate at their optimal threshold of risk to drive increased returns' and mission 'To bring increased visibility and lower cost risk management to capital market organisations' has not changed since our inception.

Our ability to offer integrated functionality as a technology service significantly reduces the cost and complexity of managing risk for our customers. We are already seeing existing customers adding new KRM22 products to their existing suite of risk products and new customers buying a suite of KRM22 risk products through the Global Risk Platform, thus eliminating the requirement for multiple distinct applications that demand separate infrastructure and data sources

Strategy

Our strategy has not changed. The core of which is to drive organic growth from our suite of products and our partners products delivered through the Global Risk Platform. We will also be looking again at acquisitions and investments to further drive our growth and scale. Our business is built on a highly scalable administrative and operational platform which will ensure that our growth delivers high margins.

Outlook

We have a compelling set of product offerings and broad base of prospects within our 2021 and 2022 sales pipeline which underpins our confidence in delivering the market expectations.

Keith Todd CBE

Executive Chairman and CEO

31 August 2021

FINANCIAL REVIEW

Income statement

Total revenue

Total revenue reported in the period was £2.2m (H1 2020: £2.3m) and 94% (H1 2020: 94%) was generated from recurring customer contracts.

Recurring revenue

Recurring revenue recognised for the period was £2.0m (H1 2020: £2.2m). As at 30 June 2021, the Group had contracted ARR of £3.7m and as at the date of this report, contracted ARR had increased to £3.9m.

Gross profit

Gross profit for the period was £1.8m (H1 2020: £2.1m) and the reduction in gross profit margin to 84% (H1 2020: 91%) was due to an increase in recurring revenue related to partner products and services.

Loss for the period

The operating loss for the period was £1.6m (H1 2020: loss of £1.0m).

Adjusted EBITDA

Adjusted EBITDA is a key metric to consider in order to understand the cash-profitability of the business due in particular to the non-cash items that impact the Income Statement under IFRS accounting, such as non-cash share-based costs.

Adjusted EBITDA for the period was a loss of £0.3m (H1 2020: loss of £0.3m) and a reconciliation of adjusted EBITDA loss to operating loss is provided as follows:

	H1 2021	H1 2020
	£'m	£'m
Adjusted EBITDA loss	(0.3)	(0.3)
Depreciation and amortisation	(0.8)	(0.9)
Impairment of intangible assets	-	(0.1)
Acquisition and debt expenses	-	(0.1)

Unrealised foreign exchange (loss)/gain	(0.2)	0.4
Gain on extinguishment of debt	-	0.8
Group restructuring costs	-	(0.4)
Share-based payment expense	(0.3)	(0.4)
Operating loss	(1.6)	(1.0)

Total comprehensive loss

KRM22 reported a total comprehensive loss for the period of £1.7m (H1 2020: loss of £1.2m).

Financial position

Cash

As of 30 June 2021, KRM22 held £1.4m in cash (31 December 2020: £2.0m).

Liabilities

As at 30 June 2021, our principal liabilities were:

- £3.0m Convertible Loan owed to Kestrel Partners LLP. The interest rate payable on the loan is 9.5% payable in cash quarterly in arears. The loan can be converted into new Ordinary Shares in the Company at any time at a conversion price of 38p and the conversion can be requested by Kestrel Partners at any time. The Company has the right to request conversion eighteen months following the date of the agreement, 15 September 2020, subject to certain conditions regarding the Company's share price at that time.
- £0.2m (US$0.3m) Payback Protection Program ("PPP") loan, a US government backed loan, owed to the Group's US banker, Silicon Valley Bank ("SVB"). The proceeds of the PPP loan are to be used to cover specific US based payroll costs under the rules of the scheme. The PPP forgivable loan is deemed to be an income-related government grant, as the Company is reasonably assured that it will comply with the loan forgiveness conditions associated with the PPP loan. The PPP loan was initially recognised as a deferred income liability on the statement of financial position and will remain as such until the loan is forgiven by the Small Business Administration in the United States. Grant income related to the payroll costs is being recognised as other income of £0.1m.
- £0.8m (US$1.1m) discounted (£1.1m (US$1.6m) undiscounted) contingent consideration for earn out payments for the acquisition of Object+. The contingent consideration can be satisfied in either cash or Company ordinary shares at the Company's discretion.
- £0.9m for the right of use assets relating to all future payments of leased-office rentals under IFRS16 'Leases', of which £0.4m will be paid within twelve months with the balance for periods greater than one year.

- £1.3m of deferred revenue; contracted and paid services that will be released within one year.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group remain broadly consistent with the Principal Risks and Uncertainties reported in the Group's 31 December 2020 Annual Report. Since the 2020 Annual Report, the impact of the COVID-19 pandemic on the business continues to be monitored by the Board.

Kim Suter

CFO

31 August 2021

Interim consolidated statement of comprehensive loss

for the six months ended 30 June 2021

	Note	6 months to 30 June 2021 (unaudited) £'000	6 months to 30 June 2020 (unaudited) £'000
Revenue	4	2,153	2,324
Cost of sales		(334)	(211)
Gross profit		1,819	2,113
Other income		112	-
Administrative expenses		(3,488)	(3,155)
Operating loss before interest, taxation, depreciation, amortisation, share based payment and exceptional items ("Adjusted EBITDA")		(325)	(319)
Depreciation and amortisation		(823)	(896)
Impairment of intangible assets		-	(74)
Profit on disposal of tangible assets		8	-
Acquisition and debt expenses		-	(115)
Unrealised foreign exchange (loss)/gain		(147)	413
Gain on extinguishment of debt		-	745
Group restructuring costs		(2)	(422)
Share-based payment expense		(268)	(374)
Operating loss		(1,557)	(1,042)

Net finance charge		(171)	(152)
Loss before taxation		(1,728)	(1,194)
Taxation credit/(charge)		47	(31)
Loss for the period		(1,681)	(1,225)
Other comprehensive income			
Exchange (loss)/gain on translating foreign operations		(40)	54
Total comprehensive loss for the period		(1,721)	(1,171)
Loss for the period attributable to:			
Owners of the parent		(1,681)	(1,311)
Non-controlling interest		-	86
		(1,681)	(1,225)
Total comprehensive loss for the period attributable to:			
Owners of the parent		(1,721)	(1,257)
Non-controlling interest		-	86
		(1,721)	(1,171)
Earnings per share for loss for the period attributable to the owners of the parent during the period			
Basic and diluted earnings per share (pence)	5	(0.06)	(0.06)

All amounts relate to continuing activities.

Interim consolidated statement of financial position

at 30 June 2021

	30 June 2021 (unaudited) £'000	31 December 2020 (audited) £'000
Assets		
Non-current assets		
Goodwill	4,821	4,937
Other intangible assets	2,851	3,065
Property, plant and equipment	93	136
Right of use assets	829	1,041
	8,594	9,179
Current assets		
Trade and other receivables	717	1,434
Cash and cash equivalents	1,376	1,974
	2,093	3.408
Total assets	**10,687**	**12,587**
Current liabilities		
Trade and other payables	2,260	2,539
Lease liabilities	396	456
Loans and borrowings	97	97
Derivative financial liability	45	45
	2,798	3,137

Net current (liabilities)/assets	**(705)**	**271**
Non-current liabilities		
Trade and other payables	837	882
Lease liabilities	454	549
Loans and borrowings	2,664	2,664
Deferred tax liability	348	405
	4,303	4,500
Total liabilities	**7,101**	**7,637**
Net Assets	**3,586**	**4,950**
Equity		
Share capital	2,675	2,672
Share premium reserve	16,682	16,676
Merger reserve	(190)	(190)
Convertible debt reserve	224	224
Foreign exchange reserve	148	108
Share-based payment reserve	2,831	2,563
Retained losses	(18,784)	(17,103)
Total equity	**3,586**	**4,950**

Interim consolidated statement of cash flows

for the six months ended 30 June 2021

	6 months to 30 June 2021 (unaudited) £'000	6 months to 30 June 2020 (unaudited) £'000
Cash flows from operating activities		
Loss for the period	(1,681)	(1,225)
Adjustments for:		
Deferred tax charge/(credit)	(47)	31
Net finance charge	171	152
Depreciation and amortisation	823	896
Impairment	-	74
Profit on disposal of tangible assets	(8)	-
Gain on extinguishment of debt	-	(745)
Unrealised foreign exchange loss	147	-
Share-based payment expense	268	374
Bad debt provision	146	-
Grant income related to COVID-19*	(76)	-
	(257)	(443)
Decrease/(increase) in trade and other receivables	717	(215)
(Decrease)/increase in trade and other payables	(569)	59
	148	(156)
Net cash outflows from operating activities	(109)	(599)

Cash flows from investing activities		
Purchases of intangible assets	(402)	(511)
Purchases of property, plant and equipment	(6)	-
Net cash used in investing activities	(408)	(511)
Financing activities		
Proceeds from issue of shares (net)	9	1,280
Lease payments principal	(109)	(264)
Lease payments interest	(25)	(47)
Loans and borrowings receipts*	186	-
Loans and borrowings repayments	(142)	(153)
Net cash (used in)/from financing activities	(81)	816
Net cash decrease in cash and cash equivalents	(598)	(294)
Cash and cash equivalent at beginning of the period	1,974	1,076
Cash and cash equivalent at end of the period	1,376	782

* PPP US funding

1. General information

KRM22 Plc (the “Company”) is a public limited company incorporated in England and Wales on 2 March 2018 under registration number 11231735. The address of its registered office is 5 Ireland Yard, London, EC4V 5EH. The Company listed on the London Stock Exchange on 30 April 2018.

The principal activity the Company and together with its subsidiaries (the “Group”) is to develop and invest in leading risk tools to support regulatory, market, technology and operational risks.

The Board of Directors approved this interim report on 31 August 2021.

2. Basis of preparation and consolidation

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”) 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 KRM 22 Plc (the “Group”) are prepared in accordance with IFRS. 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 draw attention to a matter by way of emphasis, being going concern and did not contain a statement under 498(2) or 498(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.

3. Going concern

In carrying out the going concern assessment, the Directors have considered a range of scenarios in relation to revenue and cash forecasts for the next twelve months including, but not limited to, existing customer churn at different churn rates, no new contracted sales revenue, delayed sales, cost reductions and a combination of these different scenarios.

Having assessed the sensitivity analysis on cashflows, the key risks to KRM22 remaining a going concern without implementing extensive cost reduction measures is, existing customers paying on payment terms and within 45 days of invoice, customer churn of up to 10%, conversion of some of the sales opportunities that are currently at contract negotiation stage and maintaining control of the cost base.

If the forecasts are achieved, KRM22 will be able to operate within its existing facilities. However, the time to close new customers and the value of each customer, which are deemed individually as high value and low volume, is key. As such, there is a risk that Group's working capital may prove insufficient to cover both operating activities and the repayment of its debt facility. In such circumstances, KRM22 would be obliged to seek additional funding, through a placement of shares or other source of funding. There is no certainty that such funds could be raised. In addition, delayed sales and/or increased existing customer churn could result in the Company failing to comply with financial covenants associated with the Convertible Loan and in this circumstance KRM22 would be obliged to seek resolution with Kestrel Partners on these financial covenants.

The Directors have concluded that the circumstances set forth above represent a material uncertainty, which may cast significant doubt about the Group's ability to continue as a going concern. However the Directors expect to be able to raise funds through a placement of shares or other source of funding and believe that taken as a whole, the factors described above enable the Group to continue as a going concern for the foreseeable future. The interim financial statements do not include the adjustments that would be required if the Group were unable to continue as a going concern.

4. Revenue (and segmental reporting)

The Board of Directors, as the chief operating decision maker in accordance with IFRS 8 Operating Segments, has determined that KRM22 has identified five risk domains as operating segments, however for reporting purposes into a single global business segment, as the nature of services delivered are common.

The Directors consider that the business has five risk domains: Enterprise, Compliance, Market, Operations and Technology. Within these five risk domains, there are three revenue streams with different characteristics, which are generated from the same assets and cost base.

	6 months to 30 June 2021 (unaudited) £'000	6 months to 30 June 2020 (unaudited) £'000
Recurring	2,029	2,186
Non-recurring revenue	124	113

Other revenue	-	25
Total	2,153	2,324

KRM22's revenue from external customers by geography and risk domain is detailed below:

	6 months to 30 June 2021 (unaudited) £'000	6 months to 30 June 2020 (unaudited) £'000
UK	583	246
Europe	445	404
USA	937	1,383
Rest of world	188	291
Total	2,153	2,324

	6 months to 30 June 2021 (unaudited) £'000	6 months to 30 June 2020 (unaudited) £'000
Enterprise	190	201
Compliance	1,023	850
Market	940	1,220

Other	-	53
Total	2,153	2,324

5. Loss per share

Basic earnings per share is calculated by dividing the loss attributable to the equity holders of KRM22 by the weighted average number of shares in issue during the period.

KRM22 has dilutive ordinary shares, this being warrants and options granted to employees. As KRM22 has incurred a loss in both periods, the diluted loss per share is the same as the basic earnings per share as the loss has an anti-dilutive effect.

	6 months to 30 June 2021 (unaudited) £'000	6 months to 30 June 2020 (unaudited) £'000
Loss for the period attributable to equity shareholders of the parent	(1,681)	(1,311)
Basic weighted average number of shares in issue	26,731,309	22,083,693
Diluted weighted average number of shares in issue	37,313,776	30,237,213
Basic and diluted loss per share (pence)	(0.06)	(0.06)

6. Intangibles

The Group capitalised £0.4m of costs (H1 2020: £0.5m, FY 2020: £1.0m) representing the development of KRM22's products during the period, resulting in a net book value of £1.3m (H1 2020: £1.1m, FY 2020: £1.3m) after an amortisation and impairment charge of £0.3m (H1 2020: £0.2m, FY 2020: £0.5m).

7. Cautionary statement

This document contains certain forward-looking statements relating to KRM22 plc (the "Group"). The Group considers any statements that are not historical facts as "forward-looking statements". They relate to events and trends that are subject to risk and uncertainty that may cause actual results and the financial performance of the Group to differ materially from those contained in any forward-looking statement. These statements are made by the Directors in good faith based on information available to them and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Copies of this report and all other announcements made by KRM22 plc are available on the Company's website at https://www.krm22.com/investor-relations/home