KRM22 plc

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

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

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 2023 ("H1 2023" or the "Period").

Highlights

Financial

- Annualised Recurring Revenue* ("ARR") of £4.9m at 30 June 2023 (H1 2022: £4.1m) – growth of 19.5%
    - New contracted ARR in the period of £0.4m (H1 2022: £0.7m)
- Total revenue recognised of £2.4m (H1 2022: £1.9m) – growth of 26.3%
- Adjusted EBITDA loss** of £1.0m (H1 2022: loss of £0.7m)
- Loss before tax of £2.3m (H1 2022: loss before tax of £1.2m)
- Gross cash and cash equivalents at 30 June 2023 of £1.4m (FY 2022: £1.9m)

Operational

- Completion of debt refinancing with a new £5.0m facility provided by Trading Technologies International, Inc ("TT") of which £4.0m was drawn down in June 2023 to repay the previous £3.0m facility plus interest of £0.1m and support business growth
- ARR contracts in place for the Limits Manager product with four of the top 10 Futures Commission Merchants ("FCMs")
- First sale of Limits Manager product through TT sales channel under the existing framework agreement
- Continued low level of customer churn with churn in the period of £0.1m (H1 2022: £0.1m)

Post-Period Events

- Growth in ARR to £5.1m from a further three new contracts, including an additional Limits Manager product sale through the TT sales channel, an increase of 8.5% since the end of the Period
- R&D tax receipt in respect of FY 2022 of £0.2m

** 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 fee.*
*** Adjusted EBITDA is the reported loss for the period, adjusted for recurring non-monetary costs including depreciation, amortisation, unrealised foreign exchange gain/(loss) and share-based payment charges and non-recurring costs including loss on disposal of tangible/intangible assets and acquisition and funding costs.*

Commenting on the results, CEO of KRM22, Stephen Casner, said:

"With ARR currently at £5.1m, our success in the first half of 2023 in growing ARR and maintaining a low level of customer churn continues to show progress towards our key goal of building a £10.0m ARR SaaS business. Our Limits Manager product provided strong results in this period through both our direct selling and TT distribution partnership and is quickly becoming an industry leading application. Our new Risk Manager product is now being introduced to major customers and we expect its success to accelerate our ARR growth throughout 2024 with a strong pipeline of sales opportunities to drive this growth."

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the Company's obligations under Article 17 of MAR.

Change of Name of Nominated Adviser and Broker

The Company also announces that its Nominated Adviser and Sole Broker has changed its name to Cavendish Capital Markets Limited following completion of its own corporate merger.

For further information please contact:

KRM22 plc **InvestorRelations@krm22.com**
Keith Todd CBE, Executive Chairman
Stephen Casner, CEO
Kim Suter, CFO

Cavendish Capital Markets Limited (Nominated Adviser and Broker) **+44 (0)20 7220 0500**
Carl Holmes / George Dollemore
Sunila de Silva (ECM)

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' trading and corporate 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

CEO'S REPORT

I am pleased to report our interim financials for the first half of 2023 which demonstrate that the Company is continuing to advance its key initiatives that were established in 2022 and solidly place the Company on track to meet our goal of moving towards a £10.0m Annualised Recurring Revenue ("ARR") business by 2026.

After successfully reorganising the business and repositioning the value proposition of the Risk Cockpit product in 2022, we have continued to advance three key initiatives:

1. Our Limits Manager product becoming the leading industry application for managing trading limits at Futures Commissions Merchants ("FCMs");
2. Growing ARR, through two distinct sales "channels" - our direct sales team as well as the product distribution agreement with Trading Technologies International, Inc ("TT"); and
3. Continuing to maintain a low level of customer churn.

In addition to these initiatives, the Company completed a new £5.0m debt facility from TT, KRM22's largest shareholder, to replace the previous £3.0m secured debt facility that was due to mature in September 2023.

As you review the progress made in the Period, I would like to highlight where we stand on the three key initiatives as we continue through 2023.

Limits Manager product becoming an industry standard

As previously reported, by the end of 2022 the Limits Manager product had been successfully deployed at three of the world's top FCMs, generating over £0.5m of ARR. The Limits Manager product centralises the management of limits a FCM provides their trading partners – a key part of controlling trading behaviour and managing the risk the FCM has with their counterparties. New features and functions have continued to be delivered through the Period with additional integration of the application delivered to support the industry's largest exchanges and independent software vendors.

In addition to the three FCMs already using Limits Manager at the end of 2022, the TT sales channel generated a sale to one of the industry's top five FCMs, with the customer going live on Limits Manager in the first quarter of 2023. Since the end of the Period, one additional major FCM has contracted to license the Limits Manager product through the TT sales channel taking the total number of customers using the Limits Manager product to five.

There are five additional FCM's who are testing the product and are scheduled to begin production before the end of 2023. The partnership with TT has given the Company unprecedented access to sales prospects with accelerated testing and adoption of the Limits Manager product in a timeframe that is significantly less than a quarter of the time our direct sales approach has taken.

We project that by the end of 2023, nine of the industry's top 15 largest FCMs will have licensed our product, generating over £1.0m of ARR for the Company.

A second KRM22 product, Risk Manager, has been launched on the TT platform and another major global financial institution has begun testing and evaluating this new product. We expect revenue to be generated from this product in 2024 and, in the same way that the Limits Manager product is becoming an industry standard with FCMs, we expect the Risk Manager product to become another industry standard for FCMs and their customers and generate ARR at an even higher pace than Limits Manager over the next two years.

Revenue growth

At the end of the Period the Company's ARR was £4.9m. In July 2023 the Company's ARR increased to £5.0m – a significant milestone for the Company, and the first time this has been achieved since its IPO in 2018. The Company has continued to sign new contracts and, at the date of this report, the Company's ARR has further increased to £5.1m from £4.8m (£4.7m at constant FX rates) at 31 December 2022, an increase of 8.5%.

The new ARR signed in 2023, and to the date of this report, includes sales of KRM22 products through the TT sales channel, direct sales to new customers as well as existing customers purchasing additional products and extensions to existing customer contracts.

In addition to generating new ARR and maintaining a low level of customer churn, we are now increasing the amount of non-recurring revenue ("NRR") at a level we have not seen before. NRR recognised in the Period was £0.2m and the Company currently has a further £0.2m of contracted NRR, from implementation and development services, which will be recognised in the remainder of 2023.

Delivering new NRR whilst continuing to add ARR at a level of £1.0m each year is expected to result in a significant improvement to adjusted EBITDA over the next few years.

Customer retention

Prior to FY2022 the Company experienced an unsustainable level of customer churn which was significantly reduced in FY2022 and I am pleased to report that the low level of churn has continued into FY2023 with churn of £0.1m.

While completely eliminating churn is impossible in a successful SaaS model, due to industry consolidation and market forces, our ability to deliver new products and new features and enhancements on existing products, together with focused customer retention plans, is helping to ensure that churn continues at an acceptably low level.

Outlook

Overall, we have made good progress in trying to achieve the objectives and internal KPI's set out at the start of 2023. We expect to achieve all of the 2023 objectives by the end of the year, and then we will start 2024 in a strong position on which to build and continue the journey to a £10.0m ARR business.

The goal of getting KRM22 to a £10.0m ARR business by the end of FY2026 is ambitious, however delivering ARR growth of 20% per year compounded through our direct and the TT sales channels, together with maintaining a low level of churn, will allow this target to be realised to generate positive EBITDA and cashflows.

Whilst we have defined our goal of growing KRM22 to a £10.0m ARR business, the amount of variables we have in our revenue plan has been unpredictable. However, we are starting to have a much better understanding of the sales opportunities, timing of sales cycles and development effort required for the Limits Manager and Risk Manager products which will enable us to return to providing market forecasts soon. We believe that by remaining diligently focused on growing ARR, retaining customers and managing costs, the time frame for our success will begin to come into focus in our subsequent reporting periods.

As always, we thank you for your support and look forward to continuing to build one of the best capital markets risk management companies.

Stephen Casner
CEO
25 September 2023

FINANCIAL REVIEW

Income statement

Total revenue
Total revenue reported in the period was £2.4m (H1 2022: £1.9m), an increase of 26.3% compared with the prior period, with 93.7% (H1 2022: 96.3%) generated from recurring customer contracts. Non-recurring revenue for the period was £0.2m (H1 2022: £0.1m) and related principally to customer implementations, proof of concept work and development services.

Recurring revenue
As at 30 June 2023, the Group had contracted Annualised Recurring Revenue ("ARR") of £4.9m (H1 2022: £4.1m), with new contracted ARR in the period of £0.4m (H1 2022: £0.7m) and churn of £0.1m (H1 2022: £0.1m). As at the date of this report, contracted ARR has further increased to £5.1m.

Gross profit
Gross profit for the period was £1.8m (H1 2022: £1.5m) with gross profit margin for the period of 75.5% (H1 2022: 78.3%). The reduction in gross profit margin was driven by the amount of revenue through partner products and services, primarily through data and news feeds, with minimal profit margin to KRM22.

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 £1.0m (H1 2022: loss of £0.7m) and a reconciliation of adjusted EBITDA loss to operating loss is detailed below.

Throughout FY2022, the Company used the investment proceeds received at the end of FY2021 from Trading Technologies International, Inc ("TT") to invest in Revenue, Customer Services and Development resource to help drive the business forward by growing ARR and retention of customers, which the Company was successful in achieving. H1 2023 therefore includes a full period of increased staffing costs compared with H1 2022. The Company also used the TT investment proceeds to invest in Sales and Marketing with an increase in costs associated with industry events through sponsorship and increased staff attendance at these events to drive growth in ARR.

In addition to the aforementioned investment in resource, the rate of inflation over the past 18 months meant that staff salary reviews, which are completed on an annual basis in the first quarter of each financial year, resulted in a significantly higher average pay increase compared to H1 2022. The average pay increase, whilst being higher than the prior period, was not matched to the rate of inflation.

	H1 2023 £'m	H1 2022 £'m
Adjusted EBITDA loss	**(1.0)**	**(0.7)**
Depreciation and amortisation	(0.8)	(1.0)
Unrealised foreign exchange (loss)/gain	(0.5)	0.8
Gain on extinguishment of debt	0.1	-
Share-based payment expense	-	(0.1)
Operating loss	**(2.2)**	**(1.0)**

Loss for the period

Reported operating loss for the period was £2.2m (H1 2022: loss of £1.0m). The main driver of the increase in operating loss for the period is the recognition of a £0.5m unrealised foreign exchange loss in H1 2023 compared to a gain of £0.8m in H1 2022.

Finance charges
The net finance expense for the period was £0.2m (H1 2022: £0.2m) and includes loan interest of £0.1m (H1 2022: £0.1m) and IFRS16 lease liability interest of £0.1m (H1 2022: £0.1m)

Financial position

Assets
The cash balance at 30 June 2023 was £1.4m (31 December 2022: £1.9m).

Current assets at 30 June 2023 include trade and other receivables of £0.8m (31 December 2022: £1.5m).

Liabilities
As at 30 June 2023, our principal liabilities were:

- £4.0m convertible loan (the "TT Convertible Loan") owed to Trading Technologies International, Inc ("TT"). The interest rate payable on the TT Convertible Loan is the aggregate of the SOFR average rate and a margin of 5.5% provided that the amount of such aggregate percentage rate shall be a minimum of 9.25%. Interest on the TT Convertible Loan is paid quarterly however for the first 18 months of the TT Convertible Loan term, interest can be deferred with 50% of any deferred interest being paid on 31 December 2024 and the remaining balance of deferred interest paid on 31 March 2025. TT can convert the TT Convertible Loan into new ordinary shares in the Company at any time at a conversion price of 46p.
- £0.9m (US$1.1m) deferred consideration for earn out payments for the acquisition of Object+. The liability can be satisfied in either cash or Company ordinary shares at the Company's discretion.
- £0.5m for the right of use assets relating to all future payments of leased-office rentals under IFRS16 'Leases' whereby such lease payments are provided for at today's value however, in practice, these rental payments will be spread over the term of the leases. All of the liability is due within twelve months.
- £1.8m 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 2022 Annual Report and continue to be monitored by the Board.

Kim Suter
CFO
25 September 2023

Consolidated income statement and statement of comprehensive income
for the six months ended 30 June 2023

	Note	6 months to 30 June 2023 (unaudited) £'000	6 months to 30 June 2022 (unaudited) £'000
Revenue	4	2,402	1,904
Cost of sales		(588)	(413)
Gross profit		1,814	1,491
Other income		69	65
Administrative expenses		(4,047)	(2,573)
Operating loss before interest, taxation, depreciation, amortisation, share based payment and exceptional items ("Adjusted EBITDA")		(983)	(741)
Depreciation and amortisation		(790)	(1,002)
Debt related expenses		(2)	-
Loss on disposal of tangible assets		(1)	(2)
Unrealised foreign exchange (loss)/gain		(477)	795
Gain on extinguishment of debt		127	-
Share-based payment expense		(38)	(67)
Operating loss		(2,164)	(1,017)
Net finance charge		(155)	(214)
Loss before taxation		(2,319)	(1,231)
Taxation credit		68	112
Loss for the period		(2,251)	(1,119)
Loss for the period attributable to:			
Equity shareholders of the parent		(2,251)	(1,119)
		(2,251)	(1,119)
Other comprehensive income			
Item that may be reclassified subsequently to profit and loss			
Exchange gain on translating foreign operations		329	442
Total comprehensive loss for the period		(1,922)	(677)
Total comprehensive loss for the period attributable to:			
Equity shareholders of the parent		(1,922)	(677)
		(1,922)	(677)
Loss per ordinary share			
Basic and diluted earnings per share	5	(0.06p)	(0.03p)

All amounts relate to continuing activities.

Interim consolidated statement of financial position
at 30 June 2023

	30 June 2023 (unaudited) £'000	31 December 2022 (audited) £'000
Assets		
Non-current assets		
Goodwill	5,023	5,167
Other intangible assets	2,060	2,244
Property, plant and equipment	13	11
Right of use assets	252	369
	7,348	7,791
Current assets		
Trade and other receivables	808	1,462
Cash and cash equivalents	1,351	1,900
	2,159	3,362
Total assets	**9,507**	**11,153**
Current liabilities		
Trade and other payables	3,623	3,853
Lease liabilities	489	493
Loans and borrowings	-	2,974
Derivative financial liability	255	255
	4,367	7,575
Net current liabilities	**(2,208)**	**(4,213)**
Non-current liabilities		
Trade and other payables	30	30
Lease liabilities	-	122
Loans and borrowings	3,668	-
Deferred tax liability	174	245
	3,872	397
Total liabilities	**8,239**	**7,972**
Net Assets	**1,268**	**3,181**
Equity		
Share capital	3,567	3,567
Share premium reserve	20,517	20,517
Merger reserve	(190)	(190)
Convertible debt reserve	195	224
Foreign exchange reserve	(119)	(448)
Share-based payment reserve	3,083	3,045
Retained losses	(25,785)	(23,534)
Total equity	**1,268**	**3,181**

Interim consolidated statement of cash flows
for the six months ended 30 June 2023

	6 months to 30 June 2023 (unaudited) £'000	6 months to 30 June 2022 (unaudited) £'000
Cash flows from operating activities		
Loss for the period	(2,251)	(1,119)
Adjustments for:		
Deferred tax credit	(68)	(112)
Net finance charge	155	214
Depreciation and amortisation	790	1,002
Loss on disposal of tangible assets	1	2
Unrealised foreign exchange loss/(gain)	477	(795)
Share-based payment expense	38	67
Bad debt provision	-	(49)
Income taxes received	-	38
Gain on extinguishment of debt	(127)	-
Debt related expenses	(149)	-
	(1,134)	(752)
Decrease in trade and other receivables	654	185
Decrease in trade and other payables	(242)	(565)
	412	(380)
Net cash outflows from operating activities	**(722)**	**(1,132)**
Cash flows from investing activities		
Purchases of intangible assets	(490)	(406)
Purchases of property, plant and equipment	(4)	-
Net cash used in investing activities	**(494)**	**(406)**
Financing activities		
Lease payments principal	(114)	(106)
Lease payments interest	(11)	(19)
Loans and borrowings receipts	4,000	-
Loans and borrowings repayments	(3,208)	(142)
Net cash from/(used in) financing activities	**667**	**(267)**
Net decrease in cash and cash equivalents	**(549)**	**(1,805)**
Cash and cash equivalent at beginning of the period	**1,900**	**5,362**
Cash and cash equivalent at end of the period	**1,351**	**3,557**

Notes to the interim financial information

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 25 September 2023.

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 2022 Annual Report. The financial information for the half years ended 30 June 2023 and 30 June 2022 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 KRM22 Plc (the "Group") are prepared in accordance with IFRS. The statutory Annual Report and Financial Statements for 2022 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 2022 was unqualified 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 2022 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 2023 and will be adopted in the 2023 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 undertaken a significant assessment of the cashflow 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 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 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 in nature, is key. Reasonable downside scenarios have been considered and management consider with appropriate actions being taken KRM22 has the ability to meet the various financial covenants associated with the Convertible Loan with Trading Technologies International, Inc ("TT").

Given KRM22's forecast, visible sales pipeline and working capital needs, the Directors have considered it is appropriate to prepare the interim financial statements on a going concern basis.

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 have identified two areas of risk management as operating segments, together with a third segment where the two areas of risk management are not easily separable, however for reporting purposes into a single global business unit and operates as a single operating segment, as the nature of services delivered are common.

The Directors consider that the business has two areas of risk management: Trading Risk and Corporate Risk. Within these segments, there are two revenue streams with different characteristics, which are generated from the same assets and cost base.

	6 months to 30 June 2023 (unaudited) £'000	**6 months to 30 June 2022 (unaudited) £'000**
Recurring	2,251	1,833
Non-recurring revenue	151	71
Total	2,402	1,904

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

	6 months to 30 June 2023 (unaudited) £'000	**6 months to 30 June 2022 (unaudited) £'000**
UK	897	782
Europe	398	350
USA	944	628
Rest of world	163	144
Total	2,402	1,904

	6 months to 30 June 2022 (unaudited) £'000	**6 months to 30 June 2022 (unaudited) £'000**
Trading Risk	1,209	875
Corporate Risk	1,113	959
Multiple Risk	80	70
Total	2,402	1,904

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 2023 (unaudited) £'000	6 months to 30 June 2022 (unaudited) £'000
Loss for the period attributable to equity shareholders of the parent	(2,251)	(1,119)
Basic weighted average number of shares in issue	35,666,336	35,666,336
Diluted weighted average number of shares in issue	46,958,070	46,647,659
Basic and diluted loss per share (pence)	(0.06)	(0.03)

6. Intangibles

The Group capitalised £0.5m of costs (H1 2022: £0.4m, FY 2022: £0.8m) representing the development of KRM22's products during the period, resulting in a net book value of £1.3m (H1 2022: £1.3m, FY 2022: £1.3m) after an amortisation and impairment charge of £0.4m (H1 2022: £0.4m, FY 2022: £0.7m).

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://krm22.com/investors