Impala Bidco Ltd

Unaudited Financial Statements
Period: Q4 2023

Impero

Overview

Impero is a global cybersecurity provider of cloud-based, on-premise and hybrid, wellbeing and learner monitoring SaaS and filtering solutions into the education and corporate marketplaces. Designed to protect and save children in the school environment, as well as to improve the delivery of education and technology throughout a school, Impero's products can be purchased standalone or combined to meet the customer’s needs. These solutions enable schools to keep students safe in an increasingly threatening world, improve the teaching environment and maximize efficiency for school network managers. The product suite, and its benefits, segue into the corporate market with ease, providing security features which exceed even the most stringent security and compliance standards. IT and HR managers can utilise the solution to great effect, whether monitoring and supporting employees with wellness or managing hardware.

Impero is headquartered in Nottingham (UK) with offices in Anaheim and Portland (USA), Canberra (Australia), Bucharest (Romania) and Copenhagen (Denmark).

The Group is one of the leading players in UK secondary schools, serving more than 1,400 secondary schools across the country, and has a significant footprint in the US. Globally, Impero has approximately 6,500 customers in 110 different countries and the software is used by c.2,500 School Districts and 50 percent of the Fortune 100 companies.

Impero was founded in 2002 to provide network management software to IT technicians in schools and has since been dedicated to solving complex problems with simple solutions for educational establishments across the globe. From 2015, Impero evolved its product set to include classroom management and online safety monitoring software solutions.

In recent years, Impero has been strengthening its footprint in the US. In 2018, Impero acquired Safeguarding Monitor, a developer of applications to help schools, colleges and multi-academy trusts meet their safeguarding responsibilities. On February 4th, 2021, Impero completed the acquisition of Netop, creating additional whitespace opportunities and providing a strong foothold in the corporate sector, primarily in financial services and retail. In January 2022, Impero acquired ContentKeeper, again creating additional whitespace opportunities, strengthening the US footprint, and securing a best-in-class web filtering solution.

The Highlights

1. Adjusted EBITDA of £1M for YTD Dec FY2023 versus £1.9M for YTD Dec FY2022, primarily driven by a reduction in trading revenue of £2.2M. Full year FY2023 pro forma adjusted EBITDA of £3.2M.

2. Total trading revenue for FY2023 has decreased by 9% year-on-year, from £24.6M to £22.4M, due to tougher trading conditions and a conscious shift towards a recurring revenue model. Although recurring revenue declined slightly from £20.0M in FY2022 to £19.3M in FY2023 (a 3% decline), this was largely due to (i) the delayed signing and ramp-up of a large contract, and (ii) delayed rollout of DACH Classroom and ContentKeeper Mac products. Non-recurring revenue decreased for the same period from £4.6M to £3.1M, driven primarily by a drive to improve the recurring revenue mix and automated processes around customer onboarding implemented to help drive annualized cost savings. Quality of revenue is improving, with recurring revenue increasing from 81% to 86% as a percentage of total revenue.

3. Impero ended Q4 2023 with bookings totalling £16M ACV and £24M TCV. ACV is down by 2.8% (ACV) on 2022, but up 1.0% (ACV) in Corporate.

4. Impero signed a material 10 year deal in Dec 2023 with an expected TCV of £10M, with an expected ARR at the end of year 1 of £0.4M rising to potentially £1.8M at the end of the life. The product suite of ContentKeeper, Classroom and Wellbeing will be deployed across over approximately 1,000 primary and secondary schools.

5. Sales in FY2023 saw growth in EMEA Education New Business with a 51% increase in ACV on prior year, driven in part through the launch of the ContentKeeper Filter into the UK in March, and growth in the Education Pro (on premise) solution. Sales in US Education in FY2023 sustained the level of New Business from FY2022, which had at that time been a record year, with almost £4m of new customers and upsell.

6. By the end of Q4 2023, Impero's Filter product accounted for £8.6M of total ACV (53.1% of sales bookings).

7. FY2023 new business saw a decline of 6% across the group, but saw 6% growth in Education, with the year-on-year decline driven by Corporate.

8. The new ERP implementation project commenced in Q3 FY2023 and is on track to complete in Q2 FY2024, with all UAT testing satisfactorily completed.

9. Annualized cost savings of £3.7M were delivered during 2023, as per plan, with an additional £1.5M in annualized savings identified to be delivered in FY2024.

10. In January 2024, Impero agreed with bondholders to a standstill on the payment of interest due on its existing SEK 375m bonds and entered into discussions with them in order to amend the terms of these bonds. A Written Procedure was launched in February 2024, which is expected to be concluded at the end of February.

A Note From Justin (CEO)

With Education being a seasonal industry, Q4 is used to prepare for the ensuing peak season in Q2 and Q3 of the following year. Impero has been working on new products that are both compelling and necessary for the UK and US markets, including Human Review, built on our digital monitoring product (Wellbeing) and Parental Portal, a tool that enables engagement between school and parent. Efforts continue to mature Classroom, so that is becomes more easily deployable and scalable. Incremental gains are made each month. As a core land product for our legacy offerings (Vision and EdPro) to migrate to, our focus is on streamlining integrations with school management information systems and resilience against non-industry-standard school networks. The redesign of Backdrop's data structure, in readiness for the release of Insight, and to support onboarding and offboarding of customers continues at pace. Insight will provide detailed analytics to schools and school groups and, using Impero's wealth of data, will help predict student outcomes and enable earlier intervention into safeguarding risks.

It was great to see all this work on the suite of products culminating in the signing on a material 10-year deal in Europe, with ContentKeeper, Classroom and Wellbeing products set to be deployed across over approximately 1,000 primary and secondary schools. Not only does this validate our business vision but worth noting that this is the biggest deal the combined business has won to date.

Q4 2023 saw the continued work to transition the business away from the non-recurring licence and maintenance revenue model to a SaaS recuring one. We have continued the work to refine the customer need for hardware whilst maintaining the quality of filtering provided to customers. The cloud version of our filtering product has been the backbone of our success in EMEA in FY2023, leading to growth of New Business bookings of 51% over the prior year, reaching £1.1m.

In comparison, Corporate fared less well, due in part to one key customer experiencing supply chain challenges, and this saw the deal decline of £234k, going from £367k in FY2022 to £133k in FY2023. Whilst we have felt the impact of this challenge, it is our expectation that this shortfall will be made up during FY2024 and FY2025.

The top 3 products by bookings performance remain ContentKeeper filter (53.1% of bookings), Connect (19.7%), and EducationPro (18.5%). Our focus on EducationPro (the on-premise version), has found customers that are not cloud ready, but who still desire the full functionality of Classroom Management, Digital Safeguarding and Administrator tools. New Business bookings for Classroom has grown over the second half of the year. The principal reason for loss in FY2023 has been pricing and budget, accounting for 49% of all known reasons for unsuccessful opportunities. There can be no doubt that the current economic climate is impacting decisions to procure our products, preferring to select lower quality but cheaper products, or no product at all.

Our overall growth, though has been hindered by churn on one of our legacy products, the cloud version of Education Pro. Combined (Cloud and On-Prem), Education Pro accounted for the largest portion of total churn, with the overwhelming majority of that coming from the Cloud version.

With strong sales and high demand to trial new products and features, there has been a noticeable continued impact on deployment capacity. The backlog of deployment requests has been a focus for the team, pending improvements to the product onboarding and support tools. The number of customers waiting to be deployed, and the lead time to deployment has reduced across the board. However further investment into this team has been earmarked, in preparation for the FY2024 peak sales season.

As one would expect, profitability remains a key driver for Impero. Annualized cost savings of £3.7M have been delivered during FY2023, as per the plan, with an additional £1.5M annualized savings to be delivered in FY2024, already identified and in action.

The Financials

1. Q4 Financial Commentary

- Total trading revenue for FY2023 has decreased by 9% year-on-year, from £24.6M to £22.4M, due to tougher trading conditions and a conscious shift towards a recurring revenue model.

    - Although recurring revenue declined slightly from £20.0M in FY2022 to £19.3M in FY2023 (a 3% decline), this was largely due to (i) the delayed signing and ramp-up of a large contract, and (ii) delayed rollout of DACH Classroom and ContentKeeper Mac products.

    - Non-recurring revenue has decreased for the same period from £4.6M to £3.1M**,** driven primarily by a drive to improve the recurring revenue mix and automated processes around customer onboarding implemented to help drive annualized cost savings.

    - Quality of revenue is improving, with recurring revenue increasing from 81% to 86% as a percentage of total revenue. Further measures are in place to reduce dependency on and volume of hardware needed.

- Full year FY2023 pro forma adjusted EBITDA of £3.2M. On an adjusted proforma TTM basis, the Net Interest Bearing Debt leverage ratio is 9.5x adjusted EBITDA. If the cash balance is adjusted for the impact of exceptional cash spend the ratio is 8.8x adjusted EBITDA.

- Adjusted EBITDA of £1M for YTD Dec FY2023 versus £1.9M for YTD Dec FY2022, primarily driven by a reduction in trading revenue of £2.2M but partially offset by cost savings versus prior year of £0.9M with £0.5M coming from our HC and hostings savings initiatives.

- Finance costs have increased by £0.8M from YTD Dec FY2022 to £4.3M. The Bond interest rate, being based on 3 month STIBOR plus margin, rose from an average of 9.8% in 2022 to 12.6% in 2023, accounting for 29% increase in finance costs with exchange rate movements also impacting.

- Exchange rate loss of £0.9M YTD Dec-23 vs gain of £4.5M in FY2022, driven primarily by a revaluation of the 375M SEK Bond with SEK/USD exchange rate fluctuations.

2. Consolidated Income Statement (Unaudited IFRS)

	Q4 23 £'000	Q4 22 £'000	YTD Dec-23 £'000	YTD Dec-22 £'000
Revenue	4,506	5,889	21,312	22,489
Cost of sales	(1,147)	(1,413)	(5,117)	(5,121)
Gross profit	3,359	4,476	16,195	17,368
Administrative expenses	(3,233)	(4,441)	(16,266)	(17,511)
Exceptional costs	(423)	(643)	(2,024)	(4,754)
Ebitda	(297)	(608)	(2,095)	(4,897)
Depreciation & amortisation	(2,173)	(2,078)	(8,694)	(8,275)
Finance costs	(1,258)	(967)	(4,291)	(3,495)
Exchange rate variance	(2,230)	(1,903)	(902)	4,508
Loss before tax	(5,958)	(5,556)	(15,982)	(12,159)
Tax	200	240	799	958
Loss after tax	(5,758)	(5,316)	(15,183)	(11,201)

Revenue				
Revenue	4,506	5,889	21,312	22,489
Reversal of unwind of deferred revenue haircut*	202	377	1,077	2,101
Trading revenue**	**4,708**	**6,266**	**22,389**	**24,590**
Recurring revenue	4,082	5,351	19,323	20,013
Non-recurring revenue	626	915	3,066	4,577
Total	**4,708**	**6,266**	**22,389**	**24,590**

Ebitda to adjusted ebitda bridge				
Ebitda	(297)	(608)	(2,095)	(4,897)
Exceptionals	423	643	2,024	4,754
Reversal of unwind of deferred revenue haircut*	202	377	1,077	2,101
Adjusted Ebitda***	**328**	**412**	**1,006**	**1,958**

Exceptionals				
M&A costs	-	-	-	2,827
Bond implentation/consent costs	-	-	99	1,088
Finance projects	216	497	1,364	497
Restructuring costs	15	146	125	195
Other	192	-	436	147
Total	**423**	**643**	**2,024**	**4,754**

***Deferred revenue haircut**

Deferred revenue haircut is the fair value adjustment required to be recognised when accounting for business combinations under IFRS3, to discount the book value of deferred revenue acquired to remove the profit element relating to sales and marketing effort performed prior to the business combination, leaving an amount reflecting the fair valuation of the delivery element only.

*****Trading revenue**

Trading revenue is calculated as reported revenue excluding the impact of deferred revenue haircut. This reflects the revenue that would be recognised in accordance with accounting standards had the acquired entity always been a part of the group and is the reflective continuing revenue of the combined group on a normalised basis.

******Adjusted EBITDA***

Adjusted EBITDA is calculated as Earnings before net finance cost, tax, depreciation and amortisation, impairment, loss on disposal of assets, foreign exchange gain or loss, exceptional items and deferred revenue haircut.

Adjusted pro-forma EBITDA

Adjusted pro-forma EBITDA is calculated as adjusted EBITDA plus the impact of cost saving initiatives in the period as if they were in effect for the full period

3. Consolidated Statement of Financial Position (Unaudited IFRS)

	Dec-23 £'000	Dec-22 £'000
Non-current assets		
Intangible assets	99,060	108,700
Property, plant and equipment	2,684	3,138
	101,743	111,838
Current assets		
Inventories	1,752	898
Trade and other receivables	5,416	8,229
Cash and cash equivalents	1,693	6,127
	8,861	15,254
Current liabilities		
Trade and other payables	(7,162)	(7,429)
Contract liabilities ST	(11,929)	(11,746)
Lease liabilities ST	(551)	(523)
	(19,642)	(19,698)
Non-current liabilities		
Contract liabilities LT	(7,609)	(7,856)
Lease liabilities LT	(461)	(880)
Bond principal	(29,217)	(29,729)
Other loans	(5,275)	(1,386)
Accrued interest	(1,239)	(747)
Loan arrangement fees	233	467
Deferred tax liabilities	(12,171)	(13,237)
	(55,739)	(53,368)
Net assets	**35,224**	**54,025**
Equity		
Share capital	2,235	2,235
Share premium	41,920	41,920
Retained earnings	(8,931)	9,871
Total equity	**35,224**	**54,025**

- Trade and other receivables decreased by £2.8M with £2.3M due to reduced sales year on year for Q4 and an in improvement within our ageing of trade debtors, with overdue invoices reducing from 59% to 27%, due to higher cash collections (worth c £0.8M).
- Reduction in cash of £4.4M since Dec-22, primarily due to payments for inventory purchase of £3.0M, data centres £0.6M, R&D £1.9M, deferred consideration of £0.4M and bond interest of £3.6M, offset by £3.9M of funding. Note of the £3.0M stock payments in 2023, £2.0M was originally payable in Dec-23 but paid in Jan-23.
- Other loans - On 17 April 2023 a working capital facility agreement totalling SEK 25M SEK (c.USD 2.5M) was put in place, and accrues interest at SOFR + 2.65%. On 7 July 2023 a further USD 2.5M was advanced in the form of a shareholder loan from the immediate parent entity Impala Holdings Limited. This loan is subordinated to the existing SEK bonds, and is only redeemable after the SEK bonds are fully discharged. The loan accrues interest at 15% per annum, with this interest accruing towards the ending debt balance (PIK interest).

4. Consolidated Cashflow Statement (Unaudited)

	Q4 2023 £'000	Q4 2022 £'000	YTD Dec-23 £'000	YTD Dec-22 £'000
Ebitda	(297)	(608)	(2,095)	(4,897)
Movement in WC	1,473	854	(102)	5,048
Tax receipts/(payments)	643	(136)	870	(515)
Lease payments	(140)	(131)	(539)	(534)
Operational cashflow	**1,679**	**(21)**	**(1,866)**	**(898)**
Investing				
Purchase of tangibles/intangibles	(540)	(1,110)	(2,603)	(3,296)
Acquisition of subsidiary net of cash	-	-	-	(38,379)
	(540)	**(1,110)**	**(2,603)**	**(41,675)**
Financing				
Loans drawn/(repaid)	-	-	3,933	(1,070)
Cash on merger	-	-	-	46,609
(Deferred consideration)/Capital raised	(40)	-	(434)	2,589
Interest paid	(926)	(770)	(3,464)	(2,836)
	(966)	**(770)**	**36**	**45,292**
Opening	1,521	8,028	6,127	3,408
Cashflow	173	(1,901)	(4,433)	2,719
Closing	**1,693**	**6,127**	**1,693**	**6,127**

Operational cashflow note

	FY2023 £K	FY2022 £K	Var £K
Statutory operating cash-flow	(1,866)	(898)	(968)
Exceptional Spend	2,024	4,754	(2,730)
Dec 22 Stock payment pushed to Jan 23	1,984	(1,984)	3,968
	2,142	**1,872**	**268**

- After excluding exceptional spend for FY2022 and FY2023 and adjusting for the impact of the £2M stock payment that was made in January FY2023 that was due in FY2022, operating cash flow increased by £0.3M to £2.1M.

5. Accounting Policies and Notes to the Financial Statements

Impala Bidco Ltd is registered and incorporated in the United Kingdom. The registered office is Seventh Floor, East West, Tollhouse Hill, Nottingham, NG1 5FS. The Group consists of Impala Bidco Ltd (the "parent company") and all its subsidiaries, of which Impala Bondco plc is one. The operations of the Group comprise of the development and provision of software to provide safe learning environments for learners globally.

These financial statements are prepared in alignment with International Financial Reporting Standards ("IFRS") in conformity with the requirements of the Companies Act 2006.

Impero

Company Information

Name:	Impala Bidco Ltd
Address:	Seventh Floor, East West Tollhouse Hill Nottingham NG1 5FS United Kingdom
Company Registration:	10878303
Financial Year:	January 1 – December 31
Website:	www.imperosoftware.com
Board of Directors:	Philip Walters, Chairman Julian Bennet Joe Ross Justin Reilly Gilbert Kamieniecky Richard Cremona Kerstin Sundberg (Resigned 7th November 2023) Richard Fuller
Auditors:	Mazars 6 Dominus Way Meridian Business Park Leicester LE19 1RP United Kingdom