

Quoted Companies Alliance: QCA Corporate Governance Code

Last updated 9 December 2019

Introduction

Since September 2018 all AIM companies have been required to comply with a recognised corporate governance code and to disclose how the implementation of the governance code has been applied or to explain any areas of departure from its requirements. IDE carefully reviewed and then resolved to apply the Quoted Companies Alliance Corporate Governance Code (“QCA Code”), published in April 2018.

The QCA Code makes clear it is the prime responsibility of the Chairman to ensure the Company applies the QCA Code to best advantage of all stakeholders. The QCA Code is constructed around 10 broad principles, accompanied by an explanation of what those principles entail together with a set of disclosures.

IDE Group Holdings plc, whilst an established operation, underwent a period of strategic and operational review in 2018, followed by a period of stabilisation in 2019. Our objective is to secure the long-term success of the Company by establishing a sustainable and profitable operating model with an appropriate underlying cost base. The Board believes that applying sensible corporate governance practices at this crucial stage of the Company’s development can only help achieve our goals.

We have adopted the QCA Code as our guide and set out below detailed explanations of how we seek to comply with each of the QCA’s 10 principles.

We have identified a number of areas where we are not in full compliance with the guidelines of the QCA Code and these are Principle 5, Principle 6, Principle 7 and Principle 9. We explain in detail under the relevant principle why we have departed from the guidelines in these areas.

We operate in the way the Board believes is most suited to the Company at its current stage of development. Having completed its strategic and operational review, the Company has established a strong leadership team and an appropriate cost base to enable it to focus on growing the business to secure its long-term sustainable success whilst creating long-term value for shareholders and stakeholders alike.

We trust that the result of our efforts to date provide stakeholders with access to the information they need and the confidence that the Board holds corporate governance compliance in the highest regard.

Andy Parker
Executive Chairman

Principle 1 – Establish a strategy and business model which promote long-term value for shareholders.

Strategy and Business Model

The Board's objective is to secure the long term success of the Company by establishing a sustainable and profitable operating model with an appropriate underlying cost base in order to create long-term value for shareholders and stakeholders. The Board has set out its strategy and business model in the Strategic Report of the Annual Report and Financial Statements, giving further information in the Chairman's Statement and the Financial Review about how the Company performed against its stated strategy and its strategy for growth. The Strategic Report includes information on the Principal Risks and Uncertainties faced by the Company and how it has acted to reduce its exposure to risk.

The Board undertook a strategic and operational review in 2018 which resulted in a revised business model and strategy. Details are included in the Chairman's Statement of the Annual Report and Financial Statements. The Strategic Report describes how the Group combines the benefits of its network and data centre with a flexible and technically skilled workforce to enable it to deliver and support critical services and solutions in a highly secure environment and how the Group seeks to differentiate itself through innovation, reliability and value.

The Board's strategy for growth comprises:

- Ongoing investment in expanding and enhancing the Company's own infrastructure so that we can provide our customers with the very highest level of security and service;
- Maximise the levels of revenue from our wide ranging customer base through high levels of service and a varied product and service set; and
- Efficient use of our scale and resources to explore and invest in new technologies so that our customers can benefit from the high levels of innovation across the whole industry.

The Group would also consider acquisition opportunities within the sector which would offer synergies and complementary or additive products and services. Our acquisition criteria are strict and mean that we would only consider buying a business which is similar to our own, would increase earnings, have high recurring revenues and would not over-leverage the Group.

The Board will continue to monitor its progress against its revised stated strategy.

Principle 2 – Seek to understand and meet shareholder needs and expectations.

IDE Group is committed to open communication with all its shareholders.

Copies of the Annual Report and Financial Statements are issued to all shareholders who have requested them and copies are available on the Group's investor website www.idegroup.com. The Group's interim results are also made available on the Company's website. The Group makes full use of its investor website to provide information to shareholders and other interested parties.

The Board reviews proxy voting reports and any significant dissent is discussed with relevant shareholders and, if necessary, action is taken to resolve any issues. In compliance with best practice, the level of proxy votes (for, against and vote withheld) lodged on each resolution is declared at all general meetings and, since the 2019 Annual General Meeting, announced.

Shareholders are given the opportunity to raise questions at the Annual General Meeting and the Directors are available both before and after the meeting for further discussion with shareholders.

Andy Parker, Executive Chairman, and Ian Smith, Executive Director, are primarily responsible for communicating with investors.

Meetings via the Company's broker are offered to major institutional shareholders to discuss strategy, financial performance and investment activity immediately after the full year and interim results announcements. The Directors are available to meet with major shareholders if such meetings are requested. Feedback from such meetings with shareholders is provided to the Board to ensure the Directors have a balanced understanding of the issues and concerns of major shareholders.

The Board receives share register analysis reports to monitor the Company's shareholder base and help identify the types of investors on the register.

Principle 3 – Take into account wider stakeholder and social responsibilities and their implications for long-term success.

The Company recognises its employees, customers, suppliers, advisors, banks and shareholders as forming part of the wider stakeholder group. Management identifies key relationships within the business and effort is directed to ensuring these relationships are managed appropriately. Regular reviews are undertaken to ensure any issues are addressed promptly.

The Board reviews its top clients and suppliers in its Board meetings and these are identified in packs provided to the Board.

The Company has a good relationship with its Nomad, broker and other advisers. Feedback from investors is provided by the broker as well as through direct engagement with investors by the Board.

The Company meets frequently with customers and communicates regularly with suppliers. There is a feedback system in place and issues raised can be addressed.

The Company has adopted a Modern Slavery Policy as part of its larger commitment to encourage ethical, social and environmental responsibility. The policy is available to view on the Company's website.

The Company's internal stakeholders are its employees. The Group is committed to employment policies which follow best practice, based on equal opportunities for all employees, irrespective of ethnic origin, religion, political opinion, gender, marital status, disability, age or sexual orientation.

Staff policies

The Group's employment policies are designed to ensure that they meet the statutory, social and market practices in the United Kingdom. The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees on the financial and economic factors affecting the Group, plays a major role in maintaining its relationship with its staff.

The Group gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitude and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled, the Group continues employment, either in the same or an alternative position, with appropriate retraining being given, if necessary.

The Board believes that its investment in the wider stakeholder network is expected to assist the Company's management in achieving its long-term goals creating an environment of trust and communication which will have positive implications for the long term success of the Company.

Principle 4 – Embed effective risk management, considering both opportunities and threats, throughout the organisation.

Risk assessment and evaluation is an essential part of the Company's planning and an important aspect of the Company's internal control system. The business and management of the Company and its subsidiaries are the collective responsibility of the Board. At each meeting, the Board considers and reviews the trading performance of the Group. The Board has a formal written schedule of matters reserved for its review and approval. These include the approval of the annual budget, major capital expenditure, investment proposals, the interim and annual results and a review of the overall system of internal control and risk management.

The results of the Strategic and Operational Review undertaken throughout much of 2018 have enabled the current Board to identify the most critical risks and challenges facing the business and to take the necessary steps to mitigate these risks by strengthening its control systems, as detailed in the Strategic Report of the Annual Report and Financial Statements for 2018. The revised and refined system of risk management is designed to manage rather than eliminate the risk of failure to achieve business objectives and is explained in the Strategic Report under the heading Principal Risks and Uncertainties. The Board has established a risk register which is bespoke to the Group's business. At least twice a year the risk register is reviewed and the Board considers the appropriateness of the risks identified and the mitigating action taken by management on a risk by risk basis with a particular focus on those deemed most critical.

Principle 5 – Maintain the board as a well-functioning, balanced team led by the chair.

The Annual Report and Financial Statements disclose the membership of the Board and provides information on each member.

Since the publication of the 2018 Annual Report and Financial Statements, Max Royde has stepped down as a non-executive director and Sebastian White has been appointed to the same role. Sebastian is an Investment Director at Kestrel Partners LLP, a London based fund management business whose clients are a significant shareholder of IDE Group. Kestrel Partners LLP holds approximately 8.6 per cent. of the Company's issued share capital and as such, Sebastian is not considered to be an independent director. Prior to working at Kestrel, Sebastian was Mergers and Acquisitions Director at Alternative Networks for fourteen years.

Andy Parker, who joined the Board as a Non-Executive director in August 2018, was appointed as Executive chairman in October 2018. He is a chartered accountant and has held a wide range of commercial and finance roles including acting as Chief Executive Officer of Capita Group plc, the FTSE 100 professional support services company. Andy has also held a number of finance director roles during his career and is a highly experienced public markets board director. As an executive chairman, Andy is not considered to be an independent director.

Ian Smith is an Executive Director and he lead the Group's strategic and operational review in 2018. Whilst Ian holds no beneficial interest in IDE Group, he is the Chief Executive Officer and a substantial shareholder of MXC Capital which is a substantial shareholder of the Company and as such is not considered to be an independent director.

The Board currently comprises two Executive Directors and one Non-Executive Director , supported by the interim chief financial officer and other senior managers and it oversees and implements the Company's corporate governance programme. As chairman, Andy leads the Board and is responsible for the Company's approach to corporate governance and the application of the principles of the QCA Code. Further details pertaining to the Board and the roles carried out by each member are set out in the Board of Directors section of the Annual Report and Financial Statements (although there has been a change since its publication, as noted above).

Each board member commits sufficient time to fulfill their duties and obligations to the Board and the Company. They attend regular board meetings and join ad hoc board calls and offer availability for consultation when needed. The contractual arrangements between the directors and the Company specify the minimum time commitments which are considered sufficient for the proper discharge of their duties. However, in exceptional circumstances all board members understand the need to commit additional time.

Detailed board packs include information on all business units and financial performance and are circulated ahead of board meetings. Key issues are highlighted and explained, providing board members with sufficient information to enable a relevant discussion in the board meeting.

The Board is supported by its Audit Committee and its Remuneration Committee. The number of Board and Committee meetings held throughout the course of the financial year and further details of these committees are set out in the Corporate Governance section of the Annual Report and Financial Statements. Since the publication of the Annual Report and

Accounts, Sebastian White has joined the Board and has become a member of the Audit Committee and the Remuneration Committee.

Departures from the Code

Size and balance of the board

The Company accepts that having only three directors on the Board, none of whom is independent, is not a long-term solution. However, the Company has recently undergone significant change and for the majority of 2018 the focus was on the Operational and Strategic Review and on implementing the revised strategy. The Board recognises the need for at least one independent director and is looking to find appropriate candidates to fulfil that role at which time the composition of the Board committees will be reviewed.

Principle 6 – Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities.

The Board of Directors section in the Annual Report and Financial Statements identifies the members of the Board at the time of publication and describes the relevant experience, skills and qualities they bring. Since its publication, Max Royde has stepped down as a non-executive director and Sebastian White has been appointed to the same role. Sebastian is an Investment Director at Kestrel Partners LLP, a London based fund management business whose clients are a significant shareholder of IDE Group.

The Chairman believes that, as a whole, the Board has a suitable mix of skills and competencies in order to drive the Group's strategy following completion of the Strategic and Operational Review and is best placed to secure the future of the Company and create long-term value for all stakeholders.

The Board consists of one executive director and two non-executive directors, none of whom is independent. The nature of the Company's business requires the Directors to keep their skillset up to date. Periodic updates to the Board on regulatory matters are given by Company's professional advisers.

The Company's financial adviser and Nomad and lawyers are consulted on any significant matters where the Board believes external expertise is required. For example, external consultants have been engaged to advise on a number of matters including an intellectual property trademark issue, the disposal of 365 IT and potential acquisitions and disposals.

External advisers attend board meetings as invited by the Chairman to report and/or discuss specific matters relevant to the Company and the markets in which they operate. Additionally MXC Advisory Limited, which is part of the same group as the significant shareholder MXC Capital Limited, is a retained financial adviser principally focused on acquisitions and provides the services of Ian Smith, Executive Director.

The Company Secretary advises the Board on corporate governance and regulatory matters, attends the Board meetings and reports directly to the Chairman on governance matters. In keeping with best practice as set out in the QCA guidelines the Company has split the role of Chief Financial Officer and Company Secretary.

Andy Parker and Ian Smith are primarily responsible for communicating with investors.

Departures from the Code

The Board is supported by an interim chief financial officer who is not a member of the Board. The interim chief financial officer, a chartered accountant and investment banker with extensive public company experience, works closely with the Board and is managing financial procedures and controls. The Board believes that, with the support of the interim chief financial officer, its members have sufficient financial experience to manage the Company's financial function. The Company accepts that not having a full time chief financial officer on the Board is not a long-term solution and will seek to appoint a full time permanent financial officer at the appropriate time.

The Company also accepts that not having any independent directors is not ideal. The Board recognises the need for at least one independent director and is looking to find appropriate candidates to fulfil that role and enhance the balance and skillset of the Board.

Principle 7 – Evaluate board performance based on clear and relevant objectives, seeking continuous improvement.

The Board regularly reviews the effectiveness of its performance as a whole as well as that of its committees and individual directors. The Directors' Report in the Annual Report and Financial Statements identifies the members of the Board at the time of its publication and describes the relevant experience, skills and qualities they bring.

Board appointments are made after consultation with advisers in all cases and often with major shareholders in some cases. The Nomad undertakes due diligence on all new potential board candidates. Board members all have appropriate notice periods so that if a board member indicates his/her intention to step down, there is sufficient time to appoint a replacement, whether internal or external. All Directors who are required to retire by rotation and seek re-election every three years.

Departures from the Code

As part of the operational and strategic review, the need to strengthen the Board was recognised and changes were swiftly implemented to this end with appointments made to add significant commercial, financial and operational experience to the Board overall. This was a priority in 2018 and the Board recognises that a more robust means of evaluating Board performance needs to be adopted going forwards. The evaluation process is currently under review. In the past, a review of the Board has been undertaken by external advisers. The Board will consider using this method of review in future to supplement its own processes.

Principle 8 – Promote a corporate culture that is based on ethical values and behaviours.

The Board firmly believes that sustained success will best be achieved by adhering to our corporate culture of treating all our stakeholders fairly and with respect.

Accordingly, in dealing with each of the Company's principal stakeholders, we encourage our staff to operate in an honest and respectful manner. The Board believes that achieving a common awareness across all employees plays a major role in maintaining good employee relations. The Strategic Report set out in the Annual Report and Financial Statements highlighted areas that concerned employees and steps were taken to remedy these concerns. The Group's culture of honesty and respect is reflected in the continued support and dedication shown by employees to deliver value to our customers during what has been a most challenging year.

The Company is committed to promoting a culture based on ethical values and behaviours across the business. Policies are in place covering key matters such as bribery, protection of intellectual property and sensitive information, conflicts of interest, whistleblowing and anti-slavery. These are vigorously enforced and monitored. Central to the Company's culture and values are Collaboration, Respect, Excellence, Speed, Trust and Accountability, known to the Company's employees as CRESTA. Information on how the Company's beliefs are applied to the business is set out on the website: <https://www.idegroup.com/about/our-people/>

Staff policies

The Group's employment policies are designed to ensure that they meet the statutory, social and market practices in the United Kingdom. The Group systematically provides employees with information on matters of concern to them, consulting them or their representatives regularly, so that their views can be taken into account when making decisions that are likely to affect their interests. Employee involvement in the Group is encouraged, as achieving a common awareness on the part of all employees on the financial and economic factors affecting the Group, plays a major role in maintaining its relationship with its staff.

The Group is committed to employment policies, which follow best practice based on equal opportunities for all employees, irrespective of sex, race, colour, disability or marital status. The Group gives full and fair consideration to applications for employment for disabled persons, having regard to their particular aptitude and abilities. Appropriate arrangements are made for the continued employment and training, career development and promotion of disabled persons employed by the Group. If members of staff become disabled, the Group continues employment, either in the same or an alternative position, with appropriate retraining being given, if necessary.

Certifications

The Company is proud to have been awarded ISO/IEC 20000-1, ISO 9001, and ISO 27001. Details of these and other certifications are included on the website: <https://www.idegroup.com/about/certification/>

Principle 9 – Maintain governance structures and processes that are fit for purpose and support good decision-making by the board.

The principle governance structures and processes of the Company and its subsidiaries are the collective responsibility of the Board and its Committees. At each Board meeting, the Board considers and reviews the trading performance of the Group. The Board has a formal written schedule of matters reserved for its review and approval. These include the approval of the annual budget, major capital expenditure, investment proposals, the interim and annual results and a review of the overall system of internal control and risk management. The Board of Directors page and the Corporate Governance report in the Annual Report and Financial Statements sets out individual board members' specific responsibilities and skills.

There are two standing Board Committees - Audit and Remuneration. Each of these committees acts within defined terms of reference. The roles of the Audit Committee and the Remuneration Committee are set out in the Corporate Governance section of the Company's website as follows: <https://www.idegroup.com/about/investors/corporate-governance/> as well as in the Corporate Governance report in the Annual Report and Financial Statements.

Departures from the Code

The Company recognises that its lack of independent directors does not comply with the standards of the QCA Corporate Governance Code in terms of composition of the Board and its Committees. The Board recognises the need for at least one independent director and is looking to find appropriate candidates to fulfil that role and enhance its governance structures and processes.

Principle 10 – Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders.

The Company reports formally to its shareholders and the market generally twice each year with the release of its interim and full year results. The full year results are audited by an external firm of auditors with the interim statement usually subject to a review by the same external auditors.

The Annual Report and Financial Statements set out how the corporate governance of the Company has been applied in the period under review.

These reports contain full details of all the principal events of the relevant period together with an assessment of current trading and future prospects and the reports are made available via the Company's website to anyone who wishes to review them.

The Company maintains a regular dialogue with stakeholders including shareholders to enable interested parties to make informed decisions about the Company and its performance. The Board believes that transparency in its dealings offers a level of comfort to stakeholders and an understanding that their views will be listened to. This proved to be of utmost importance during 2018 which was a period of significant change and challenge for the Company. The Board intends to continue its policy of communication for the mutual benefit of the Company and its stakeholders.

The Board discloses the result of general meetings by way of announcement and discloses the proxy voting numbers to those attending the meetings. In order to improve transparency, the Board implemented a new policy to announce proxy voting results following the Annual General Meeting in August 2019, as it had committed to do. In the event that a significant portion of voters vote against a resolution, an explanation of what actions the Board intends to take to understand the reasons behind the vote will be included.

The roles and responsibilities of the committees supporting the Board are set out in the Corporate Governance section of the Annual Report and Financial Statements.