Eckoh

2018

Eckoh results for the year ended March 31st 2018

Agenda

- Eckoh Overview
- Financial Highlights including IFRS 15
- Operations Review
  - UK Operations
  - US Operations
  - Innovation
- Summary and Outlook

Continued Growth and Strong US Momentum

- Results in line with expectations
- Growth in revenue, margin and profit, strong cash generation
- US revenues up 16%, now representing 37% of Group revenue
- Excellent progress in US Secure Payments
- Year of transition in the UK – back on track
- Positive start to the new financial year

Financial Highlights

Revenue
£30.0m
↑ 3% ↑ 8%* Organic
(FY17: £29.1m)

Gross Profit
£22.9m
↑ 13%
(FY17: £20.3m)

Operating Profit **
£5.3m
↑ 22%
(FY17: £4.3m)

Recurring Revenue
76%
→ Level
(FY17: 76%)

Gross Margin
76%
↑ 6%
(FY17: 70%)

Net Cash
£3.6m
↑ £3.4m
(FY17: £0.2m)

* Organic constant currency (using last year exchange rates), excludes the closed Professional Services activity and the acquired K2C division
**Excluding expenses relating to share option schemes, legal fees and settlement costs amortisation of acquired intangible assets and acquisition costs

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Income statement

	FY18 (UK) £'000	FY18 (US) £'000	FY18 (Total) £'000	FY17 (UK) £'000	FY17 (US) £'000	FY17 (Total) £'000	Variance
Revenue	**18.9**	**11.1**	**30.0**	**19.4**	**9.7**	**29.1**	**+3%**
Gross Profit	16.1	6.8	22.9	16.1	4.2	20.3	+13%
Gross profit %	*85%*	*61%*	*76%*	*83%*	*43%*	*70%*	*+6%*
Administrative Expenses			21.3			18.5	+14%
Share option expenses			(0.8)			-	
Legal fees and settlement costs			(0.6)			-	
Amortisation of acquired intangible assets & Acquisition costs			(2.3)			(2.5)	
Adjusted* Admin Expenses			17.6			16.0	+10%
Adjusted* Op Profit / (Loss)			**5.3**			**4.3**	+22%
Loss from closed US PS division			-			(0.7)	-
Adjusted Op Profit / (Loss)**			**5.3**			**5.0**	+5%

* excluding expenses relating to share option schemes, legal fees and settlement costs and acquisitions **excluding losses from closed US activity

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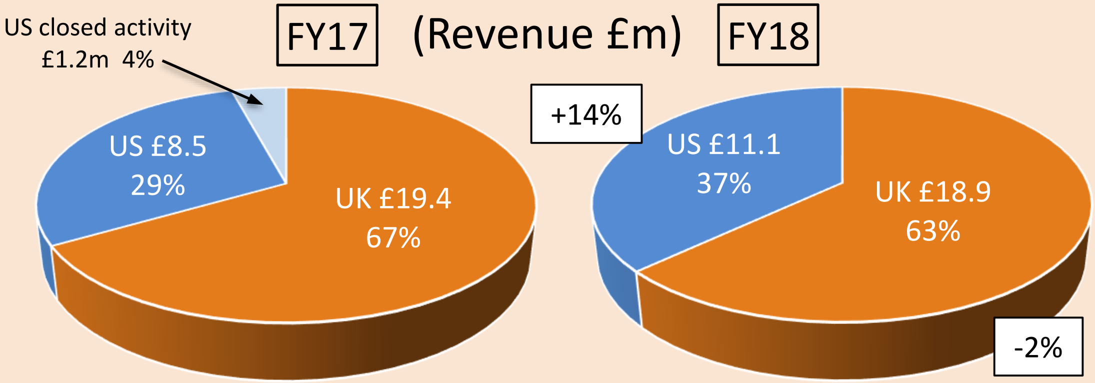
Divisional Revenue Analysis

FY17 (Revenue £m) FY18



- US has grown to 37% of the Group (FY17: 33%)
- US revenue up 32% excluding the closed Professional Services activity

US (Sales Split £m) UK

Main Partner: west

Main Partners: CAPITA BT Teleperformance

- UK Partner activity grew to 32%, mainly through the addition of Teleperformance from the K2C acquisition
- US Partner activity grew 8% to 10% at £1.1m
- New US partners have been added

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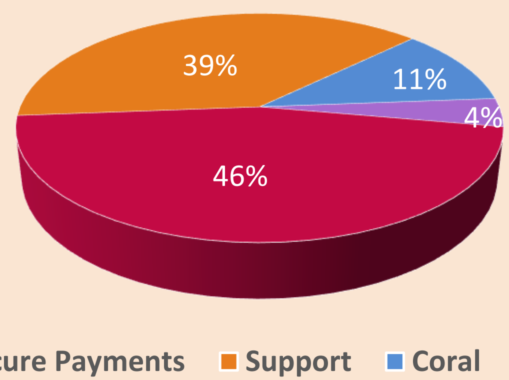
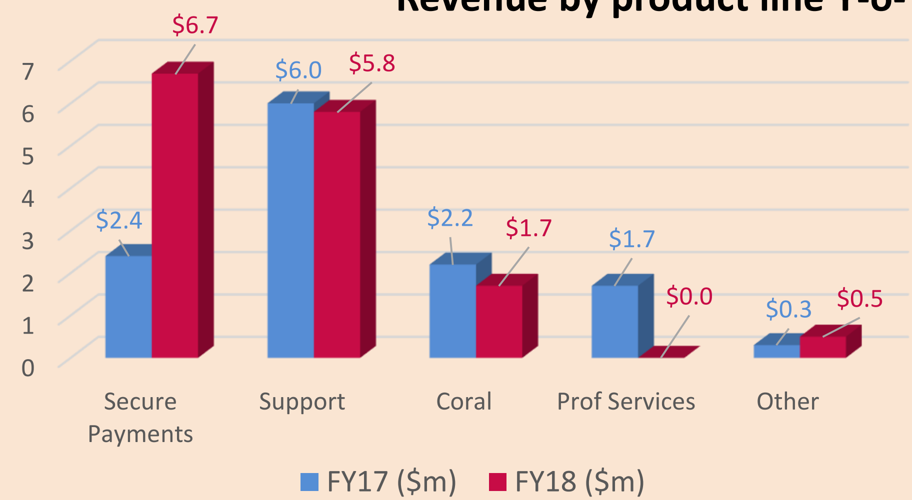
US Revenue Analysis

- 46 US clients generated more than $35K each in annualised revenue (FY17: 41)
- Secure Payments revenue grew 179% to $6.7m (FY17: $2.4m) and now represents 46% of US revenue
- Gross margin grew significantly to 61% (FY17: 43%) and recurring revenue grew 3% to 57%
- Order book of Secure Payments; unrecognised revenue is up substantially $9.7m (FY17: $6.5m)
- Exit monthly recurring run rate of $1.0m (FY17: $0.7m)

FY18 Share of Revenue by Product



Revenue by product line Y-o-Y



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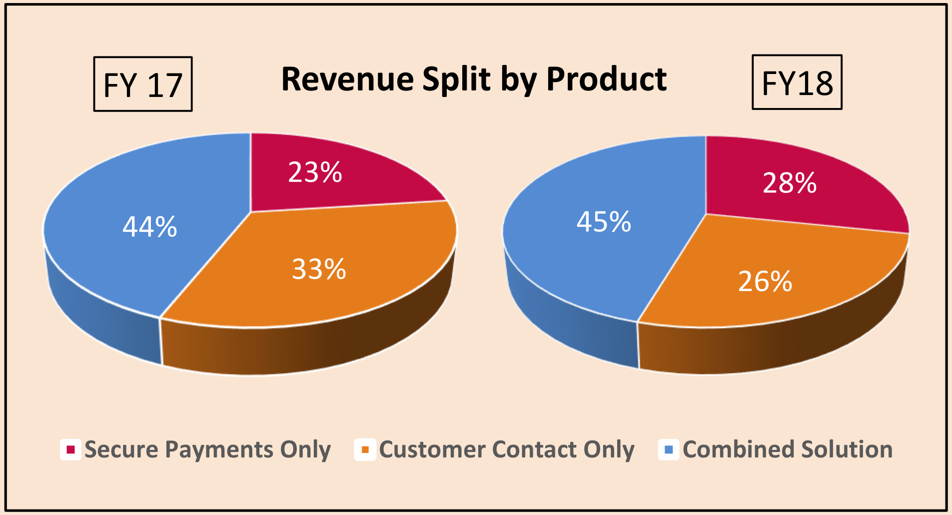
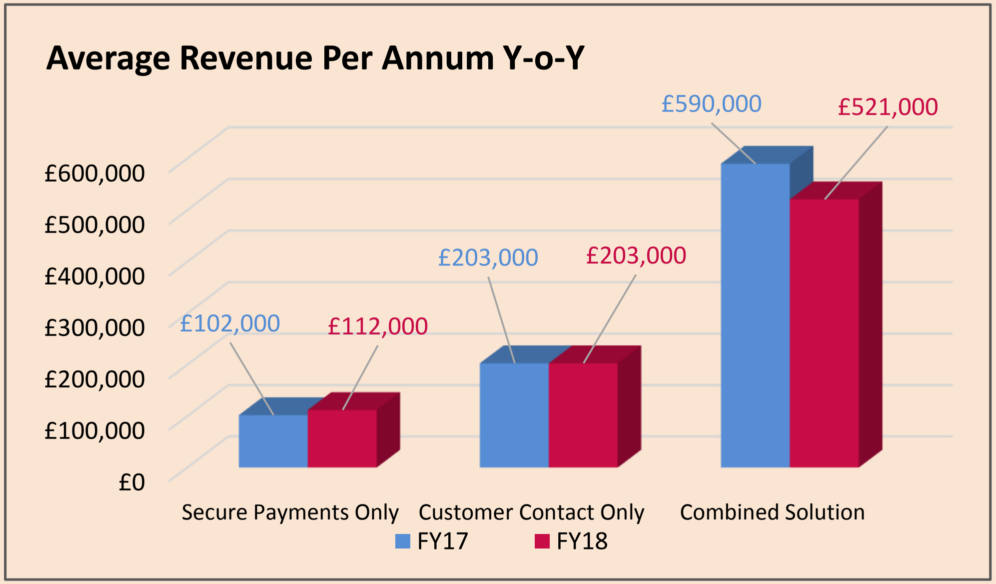
UK Revenue Analysis

- 90 UK clients in the UK generated more than £25k each in annualised revenue (FY17: 87)
- Recurring revenues remain strong at 86% (FY17: 87%)
- Gross margin improved to 85% (FY17: 83%)
- Product split shift towards Secure Payments
- Exit monthly recurring run rate of £1.4m (FY17: £1.4m)





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Balance Sheet

£'000	2018	2017*	
Intangible Fixed Assets	7,959	10,900	Amortisation of intangibles
Tangible Fixed Assets	4,703	5,023	Mainly comprised of HQ building and hosted telephony platform
Deferred Tax Asset	3,533	3,578	Proportion of tax becomes payable in FY20
Total Fixed Assets	**16,195**	**19,501**	
Non cash current assets	10,559	12,270	
Cash	8,164	6,083	
Total Assets	**34,918**	**37,854**	
Trade & Other Payables	(7,885)	(9,155)	
Loans	(4,550)	(5,850)	Repayment of loan quarterly £375k
Contingent consideration	-	(975)	K2C earnout released
Deferred tax liability	(674)	(1,383)	Arising from Veritape, PSS and K2C acquisitions & amortises alongside the intangible asset
Net assets	**21,809**	**20,491**	

* restated for revaluation of PSS Inc Goodwill and Intangible assets

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Cash Flow Statement

£'000	2018	2017
Profit after tax	2,660	1,439
Depreciation / Amortisation	3,568	3,678
Share based payments	554	131
Other	(1,379)	509
Operating profit before changes in working capital	**5,403**	**5,757**
Movement in receivables, payables inventory and tax	438	(3,282)
Cash generated from operating activities	**5,841**	**2,475**
Purchase of property, plant and equipment	(646)	(598)
Purchase of intangible fixed assets	(317)	(200)
Acquisition of subsidiary, net of cash	-	(1,860)
Net Interest	(84)	(99)
Net loan movement	(1,300)	1,100
Dividends	(1,209)	(1,084)
Other	(204)	(268)
Cash movement	**2,081**	**(534)**

Impact of IFRS 15

- Non-recurring revenue impacted for hosted services and most Secure Payment services
  - Uniqueness of the Eckoh product is linked to PCI Compliance on-going obligations
- Impact of single performance obligation:
  - Hardware and implementation revenue recognised from point of delivery to the client and spread over the contract term, typically 3 years
  - US – larger impact due to Eckoh's new, fast growing business in Secure Payments
  - UK – less impact reflecting a more mature business
- 2017/18 estimated impact to gross profit and operating profit of approximately £2.4m
- Impact on key KPI's
  - Recurring revenue approximately +10% ↑
  - Operating profit % approximately -12% ↓
  - Order book of unrecognised Secure Payment revenue increases ↑
  - Cash unchanged →

Areas not impacted by IFRS 15

❑ Cash generation	**Unchanged**
❑ Eckoh Business Model	**Unchanged**
❑ US business: Support, Coral and Product	**Unchanged**
❑ Total contract value/orders in	**Unchanged**
❑ Market opportunity	**Unchanged**
❑ Dividends	**Unchanged**

Growth drivers in a largely untapped target market

Contact Centre Industry employs 4% of total UK and US workforce

US Target Market Size
14,000 Contact Centres
with 50+ agent seats

UK Target Market Size
2,500 Contact Centres
with 50+ agent seats

Reducing Fraud
PCI DSS Compliance
Managing Financial and
Reputational Risk

Improving Engagement
Maximising Cost Benefit
Omni-channel Adoption
Transition to Cloud

Two highly complementary activities

Secure Payments

Eckoh's patented products remove personal and payment data from IT environments and contact centres; helping organisations reduce the risk of fraud and to become compliant with PCI DSS[2] and wider data security regulations such as GDPR[3]

Cross Selling

Customer Contact Solutions

Enables end users to make enquiries and perform transactions more easily, on whatever device they choose; allowing organisations to improve efficiency, lower operational costs and provide a true Omni-channel experience to their customers

[1] Contact Babel – Nov 2017 [2] Payment Card Industry Data Security Standard [3] General Data Protection Regulation

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Strategic Goals

- Expanding our US footprint
- Broadening channel partnerships in the UK and US
- Continue to extract value from recent acquisitions
- Investment in R&D to support market leadership
- Maximising client value through cross-selling
- Opportunistic acquisitions to support growth strategy

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Strong progress in US Secure Payments

- Excellent momentum in Secure Payments, with 179% revenue growth
  - 12 contracts won with total contract value of $9.3m (FY17: 9 contracts; $8.3m)
  - 23 live payments clients providing excellent customer references and case studies
  - Implementation process become refined improving time to revenue
  - Average contract value is slightly higher than predicted run rate $0.7-0.75m
  - New four-year deal worth $1.1m with healthcare client since period end
- Partner strategy bolstered by key hire of Head of Channel Sales
  - Four-year contract win through partner West for Fortune 100 retail company
- No Coral licence sales during the period, but expectations of future orders

	Contracts Won	Total Contract Value	Average Contract Value	Capex Pricing	Opex Pricing
FY15	5	$0.3m	$53K	5	0
FY16	9	$1.6m	$173K	8	1
FY17	9	$8.3m	$918K	2	7
FY18	12	$9.3m	$776k	1	11

Year of transition in the UK

- Sales team restructured and refocused on large tenders, channel partners and strategic accounts
- Stronger pipeline and twice as many contracts won in H2 versus H1
- Two three-year contracts in the insurance sector worth £1.3m won since period end
- Renewed traction with Indirect Channel where Eckoh is a key partner
  - **BT** partnership renewed for further 3 years, PowerNI renewed
  - **Capita** outlook improving after a disappointing year
  - **Teleperformance** relationship broadening from largely Omni-channel base, contract win for Eckoh and K2C for Her Majesty's Passport Office
  - Eight additional syndications added through partner **allpay**
- The largest contract renewal was Tenpin, for 3 years to October 2020

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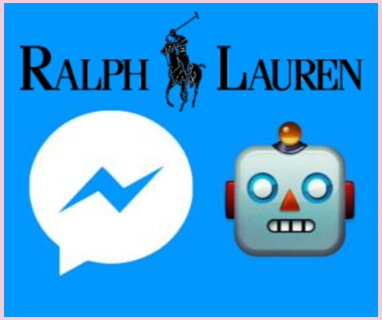
Innovation Update

- **Patents**
  - Two new 20-year US patents awarded in February for CallGuard
  - Protects all current and future contracted US payments revenues
  - First patent is for Eckoh's lead Tokenisation solution
  - Second patent awarded for Eckoh's voice biometric solution
- **Full Integration of K2C Omni-channel Technology (Eckoh Experience Portal)**
  - Developing a fully integrated customer engagement platform (EXP) to share in real time information about activity made through any channel
- **Chatbots -** First commercial Chatbot launched with Ralph Lauren
  - Eckoh's Chatbots will work alongside the conversational interface in the voice channel, utilise a common knowledge base and leverage artificial intelligence where required
  - Significant future opportunity exists for Chatbots incorporating secure payments and eWallet payment methods



Investment Case

- Long trend of revenue and profit growth - Decade of uninterrupted growth
- Significant levels of recurring revenue - 76% at a group level
- Low customer churn rates - Retention almost 100%
- Significant market opportunity - Largely untapped target market
- Limited competitive threat - Few competitors and no homegrown US competitor
- IP Protection - Core secure payments offering is patented in key markets
- Capacity for growth without significant investment
- Long term structural growth drivers - Continuing data breaches and the threat of increased regulation, especially GDPR, will further drive sales interest globally
- Prospects are excellent for future progress and growth

Summary

- Continued growth and strong US momentum
- Improving quality of earnings with growth in recurring revenue
- Strong balance sheet and cash generation
- Ongoing innovation and technology
- Continuing to strengthen competitive advantage
- Structural growth drivers

Thank you

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Appendix 1 - Eckoh History

Dec 1999	Float on FTSE as 365 Corporation
Jan 2002	Sale of internet business
May 2002	Change of name to Eckoh, new customer engagement strategy
Jun 2003	Eckoh moves to AIM
Jul 2006	Symphony share sold to Redstone for £11m
Jun 2010	IVR division merged with Telecom Express & French office closed
Oct 2010	Level 1 PCI DSS Accreditation received, growth from EckohPay product
Jan 2012	EckohPROTECT launched generating significant sales interest
Jun 2013	Acquisition of Veritape Limited (On-premise payments solution provider)
Nov 2013	Eckoh Inc incorporated, US trading begins April 2014
Nov 2015	Acquisition of Product Support Solutions ('PSS Help') for $8m to expand US operation
Jul 2016	Acquisition of Klick2Contact for £2.35m (Omni-channel customer engagement specialist)
Mar 2017	Transformational year for US payments business with $8.3m contract value secured
Feb 2018	Two key US patents awarded for Eckoh Secure Payments
Future	Market conditions expect to continue to support further growth

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Appendix 2 - Eckoh Background

Eckoh is a Provider of Secure Payment Products and Customer Contact Solutions

2002
- Customer Contact Launches

2004
- Eckoh moves to AIM

2010
- PCI DSS Level 1 accreditation

2012
- CallGuard Launched

2014
- Enter US with Secure Payments

2014
- First patent awarded

2015
- Acquire PSS to support US

2016
- Acquire K2C for Omni-channel

2017
- New CallGuard patents awarded

- **Customer Contact Solutions** launched in **2002** with the provision of managed services to help improve customer engagement in the voice channel. The proposition broadened to include web and mobile and in 2016 Omni-channel capability was added with the acquisition of Klick2Contact to complete the portfolio
- **Secure Payments** became a separate business line in **2010** when Eckoh achieved PCI DSS level 1 compliance and a set of patented products has been created in the intervening period
- **US trading** began in 2014 with Secure Payments and growth has been supported by the acquisition of PSS in 2015
- Eckoh's clients come from a broad range of vertical markets and are typically large enterprises or organisations

Appendix 3 - Significant Market opportunity largely untapped

Product Set
Secure Payments, Support and Coral
Product Delivery
Primarily on site (80%+)
Partner channels
West Corporation

Product Set
All Products
Product Delivery
Primarily hosted managed service (90%+)
Partner channels
Capita, BT, Teleperformance

US

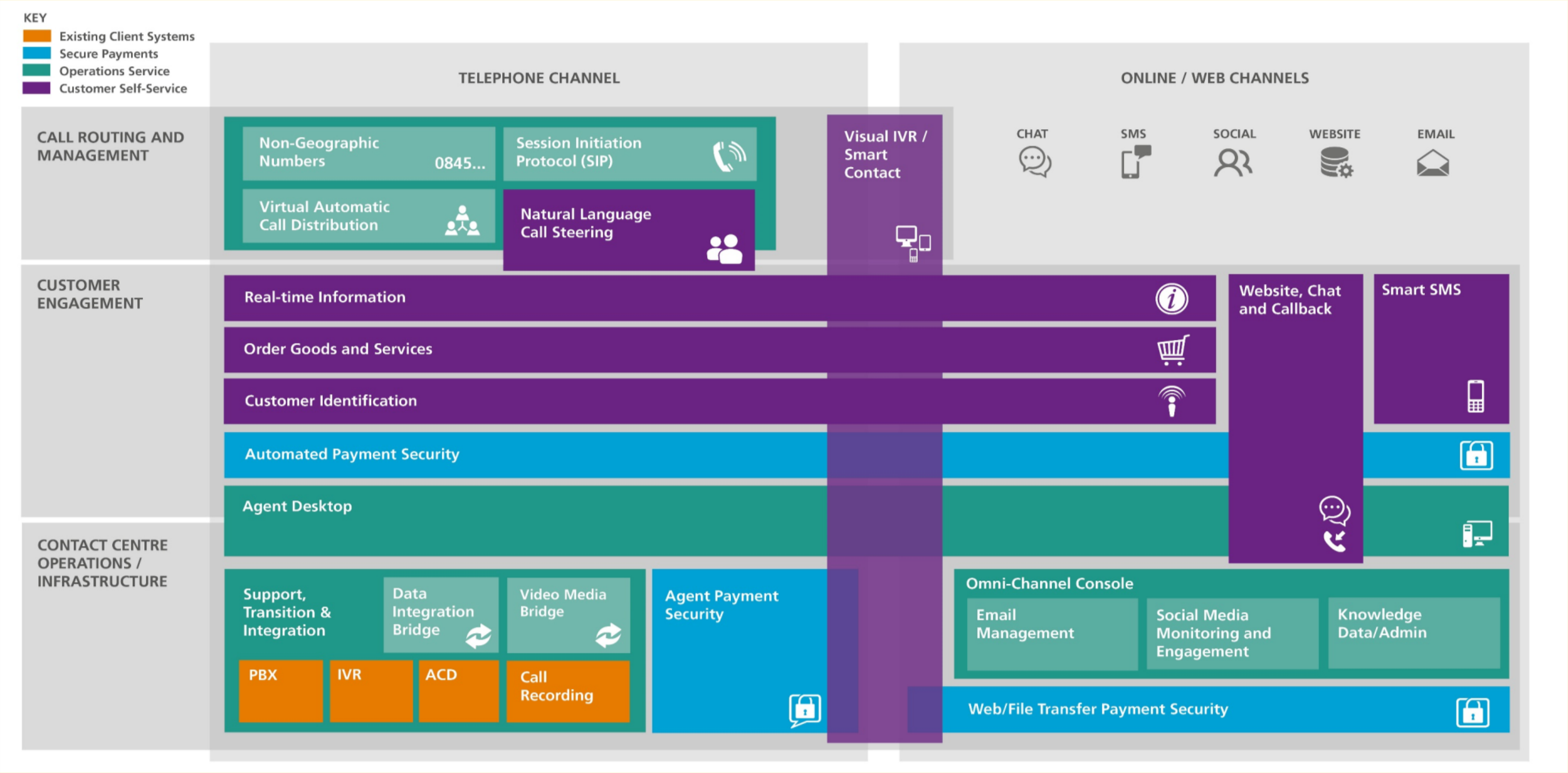
40,000 Contact Centres
3.5m Agent seats
6m Employees (4% of entire US workforce)
Addressable Market: 14,000 Centres of 50 seats +
Eckoh Clients of $35K+ per annum – 41
Less than 1% of the addressable market

UK

6,000 Contact Centres
766,000 Agent seats
1.3m Employees (4% of entire UK workforce)
Addressable Market: 2,500 Centres of 50 seats +
Eckoh Clients of £25K+ per annum – 87
3% of the addressable market

* Contact Babel – UK and US Contact Centre Guides 2017-2021

Appendix 4 – Eckoh's Technology Portfolio



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Appendix 5 - Typical Commercial Model

- UK contracts are substantially for **Hosted / Cloud Services** (90%+)
- US payment contracts are typically **Customer Premises Equipment** ("CPE") implementations (80%+) Strategy successfully underway to convert deals to SaaS-style pricing, Opex contracts
- Contract renewals are typically on comparable terms

	Preferred Model Hosted Services and New CPE (UK & US) "Opex"	Historic CPE Implementations (UK & US) "Capex"	Support Services (US only)
Typical Contract Length	Three year minimum	Three year minimum	Annual Renewal
Typical Commercials	Small set-up fee (15-35% of contract value), monthly management fee including set volume of minutes, transactions or agent seats	Outright purchase of hardware with 15-20% per annum maintenance and support charge	Flat monthly fee for support
Likelihood of renewal	Extremely likely	Very likely	Working assumption is "two in three"
Recurring Revenues	75-85% of contract value	15-20%	Contractual relationship is on average 3 years

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Appendix 6 - Ten Year Growth Trend

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Revenue	**30.0**	**29.1**	**22.5**	**17.2**	**14.0**	**11.0**	**10.4**	**9.0**	**7.9**	**6.7**
Gross Profit	22.9	20.3	16.8	13.1	10.2	8.3	7.9	6.6	5.7	4.3
Administrative Expenses	21.3	18.5	14.4	14.0	10.4	7.2	6.8	6.0	6.2	6.1
Share option expenses	(0.8)	-	(0.6)	(1.0)	(1.2)	(0.4)	(0.2)	(0.1)	(0.1)	(0.1)
Amortisation of acquired intangible assets & Acquisition costs	(2.3)	(2.5)	(1.6)	(1.3)	(1.2)	-	-	-	-	-
Non-recurring Admin Expenses	(0.6)		0.5	(2.0)	-	-	-	-	(0.7)	(0.8)
Adjusted* Admin Expenses	17.6	16.0	12.7	9.7	8.0	6.8	6.6	6.0	5.5	5.2
Operating Profit / (Loss)	1.5	1.6	2.4	(0.9)	(0.2)	1.1	1.1	0.6	(0.5)	(1.8)
Adjusted* Op Profit / (Loss)	**5.3**	**4.3**	**4.1**	**3.4**	**2.2**	**1.5**	**1.3**	**0.7**	**0.2**	**(0.9)**

* excluding expenses relating to share option schemes, settlement fees and legal costs, amortisation of acquired intangible assets and non recurring costs

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Appendix: The Eckoh business model & changes to revenue recognition from adoption of IFRS 15

How Eckoh transitions to IFRS 15

2018 Financial Statements Disclosure		
	2018	**2017**
Revenue	OLD	OLD
Expense	OLD	OLD
Profit	OLD	OLD
Assets	OLD	OLD
……	OLD	OLD
Notes		
Disclosures	OLD	OLD
Expected impact of IFRS 15: We estimate the following impact in 2019:		

IFRS 15

2019 Financial Statements Disclosure		
	2019	**2018**
Revenue	NEW	NEW
Expense	NEW	NEW
Profit	NEW	NEW
Assets	NEW	NEW
……	NEW	NEW
Notes		
Disclosures	NEW	NEW
Impact of IFRS15:		
Revenue	n/a	YES
Expense	n/a	YES
Profit	n/a	YES
Assets	n/a	YES
CASH	**NOT IMPACTED**	

This is a new accounting standard, that does not impact the Eckoh business model, the order intake or the cash generation of the business

OLD = Previous Policies / NEW = IFRS 15 Policies

Impact of Secure Pay – ATO[1] & hosted products

SECURE PAY- ATO[1] & HOSTED SOLUTIONS

PREVIOUS POLICIES

Hardware/ Software

Implementation fees

Recurring revenue

Revenue recognition

On delivery

Based on effort – implementation

(15 – 35% TCV)

From go-live - mthly

(70 - 85% TCV)

3 – 12 months

3 yrs

IFRS 15 POLICIES

Hardware, Software, implementation fees, on-going support & maintenance = ***SINGLE PERFORMANCE OBLIGATION***[2] *= 100% TCV*[3]

Revenue recognition

Total Contract Value is spread evenly over the length of the contract from the point of **Delivery to client** ie 3 years

Costs of hardware/ implementation fees deferred and recognised in line with revenue

Hardware/ Software & implementation revenue recognition delayed from initial implementation period by 3 – 4 years.

Current Impact:

US – higher growth & higher % hardware Implementation fees

1. Audio Tokenisation Onsite (ATO)
2. Even if Eckoh entered two contracts, (one for set-up & one for on-going support & maintenance) with the client, IFRS 15 would view it as ONE contract with a SINGLE PERORMANCE OBLIGATION
3. TCV = Total Contract Value

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Contract Examples – New Contract

New contract

	Deal structure	£000
Term of deal (months)	36	
Implementation time (months)	12	
Hardware	15%	180
Set-up fee	15%	180
Recurring revenue	70%	840
Total contract value		**1,200**

Cash	**Timing**
Hardware	on delivery
Set-up fee	50% contract signing
	50% on delivery to client
Recurring revenue	Monthly

Old policy

Revenue	Year 1 £000	Year 2 £000	Year 3 £000	Year 4 £000	Total £000
Hardware	180				180
Set-up fee	180				180
Recurring Revenue		280	280	280	840
Total	**360**	**280**	**280**	**280**	**1,200**
GP	216	280	280	280	**1,056**
Cash					
Hardware	180				180
Set-up fee	180				180
Recurring Revenue		280	280	280	840
Total	**360**	**280**	**280**	**280**	**1,200**
Net cash post costs	216	280	280	280	**1,056**

IFRS 15

Revenue	Year 1 £000	Year 2 £000	Year 3 £000	Year 4 £000	Total £000
Hardware	0	60	60	60	180
Set-up fee	0	60	60	60	180
Recurring Revenue	0	280	280	280	840
Total	**0**	**400**	**400**	**400**	**1,200**
GP	0	352	352	352	**1,056**
Cash					
Hardware	180				180
Set-up fee	180				180
Recurring Revenue		280	280	280	840
Total	**360**	**280**	**280**	**280**	**1,200**
Net cash post costs	216	280	280	280	**1,056**

Revenue / Profit recognition is impacted **BUT CASH GENERATION IS NOT IMPACTED**

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Contract Examples – Contract Modification

Contract modification

	Deal structure	£000
Term of deal (months)	36	
Elapsed time in contract (mths)	12	
Implementation time (months)	3	
Set-up fee	100%	100
Recurring revenue		
Total change requests		**100**

Cash	**Timing**
Set-up fee	100% on delivery to client
Recurring revenue	Monthly

	Old policy Year 1 £000	Old policy Year 2 £000	Old policy Year 3 £000	Old policy Total £000	IFRS 15 Year 1 £000	IFRS 15 Year 2 £000	IFRS 15 Year 3 £000	IFRS 15 Total £000
Revenue								
Set-up fee		100		100	0	67	33	100
Recurring Revenue		0	0	0	0	0	0	0
Total	**0**	**100**	**0**	**100**	**0**	**67**	**33**	**100**
GP	0	50	0	**50**	0	33	17	**50**
Cash								
Setup fee		100		100		100		100
Recurring Revenue		0	0	0		0	0	0
Total	**0**	**100**	**0**	**100**	**0**	**100**	**0**	**100**
Net cash post costs	0	50	0	**50**	0	50	0	**50**

Revenue / Profit recognition is impacted **BUT CASH GENERATION IS NOT IMPACTED**