Eckoh

20 November 2018

Eckoh plc

Unaudited interim results for the six months ended 30 September 2018

In line results; strong growth in UK and US new business

Eckoh plc (AIM: ECK), the global provider of secure payment products and customer contact solutions, is pleased to announce its unaudited results for the six months to 30 September 2018.

£m unless otherwise stated	H1 FY19	H1 FY18 Restated[1]	*Change*
New business contracted [5]	14.2	8.7	*63%*
Total business contracted	16.8	12.2	38%
Revenue	13.1	13.4	*(2%)*
Recurring Revenue % [2]	*87%*	*86%*	*+100 bps*
Gross profit	11.0	11.4	*(4%)*
Adjusted EBITDA [3]	1.6	1.9	*(15%)*
(Loss)/ profit before taxation	(0.2)	0.8	
Diluted Earnings per share	(0.07p)	0.31p	
Net Cash	3.4	1.7	

Strategic highlights:

- Results in line with Board expectations
- Strong momentum in the UK and US underpinned by record new business contracted and order book
- New business contracted in half year exceeds entire prior year in the UK and US Secure Payments
- Significant progress in US Secure Payments: revenues up 67%, record new business contracted in the half year, including our largest ever contract valued at $7.4m
- Return to growth in UK: improved sales channel, delivered new contracts through BT and Capita

Financial Highlights:

- Recurring revenue up to 87% (H1 FY 18[1]: 86%)
- Significant increase in deferred revenue to £12.7m (H1 FY18[1]: £8.6m), reflecting business wins and impact of IFRS 15
- US Secure Payments order book grew 78% to $21.7m (H1 FY18[1]: $12.2m)
- Revenues down 2%, or 1.4% at constant currency [4]
  - UK up 5% driven by successful restructuring of sales function
  - US down 14%: growth in Secure Payments offset by short-term decline in Support and Coral
- Balance sheet strengthened with net cash of £3.4m (H1 FY18: £1.7m)

Current Trading:

- Year to date new contracted business now exceeds FY18 total of £15.3m
- Strong and growing pipeline in US Secure Payments, further contracts won since period end
- Largest contract renewal secured with Vue Cinemas worth £2m over 3 years
- Record visibility for second half

1. *See note 6 for details regarding the restatement as a result of adoption of IFRS15 – Revenue from Contracts and Customers*
2. *Recurring revenue is defined as on-going revenue on a transactional basis, rather than revenue derived from the set-up and delivery of a new service or hardware.*
3. *Adjusted earnings before interest, tax, depreciation and amortisation (EBITDA) is the profit before tax adjusted for depreciation, amortisation, finance income, finance expense, legal fees and settlement costs and expenses relating to share option schemes.*
4. *Constant currency (using last year exchange rates)*
5. *New business contracted excluding renewals with existing customers.*

Nik Philpot, Chief Executive Officer, said:

"Eckoh has had an extremely strong first half with significant increases in new business contracted in both the UK and US. Following the steps taken last year it is pleasing to see the UK return to growth in such a convincing manner and the US Secure Payments business performed particularly strongly with record levels of new business contracted and a total order book that now well exceeds $20m.

Whilst the IFRS 15 accounting rule changes have reduced reported revenue and profit, we have excellent revenue visibility from the increasing levels of deferred revenue and a fast growing order book, which provides a solid platform for predictable significant growth and further confidence in the outlook for future periods. We remain excited by the prospects for the Group."

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About Eckoh plc
Eckoh is a global provider of secure payment products and customer contact solutions, supporting an international client base from its offices in the UK and US.

Our secure payments products help our customers take payments securely from their clients through multiple channels. Our products, which include the patented CallGuard, can be hosted in the Cloud or deployed on the client's site and remove sensitive personal and payment data from contact centres and IT environments. Our products offer merchants a simple and effective way to reduce the risk of fraud, secure sensitive data and become compliant with the Payment Card Industry Data Security Standards ("PCI DSS") and wider data security regulations. Eckoh has been a PCI DSS Level One Accredited Service Provider since 2010, securing over $2bn in payments annually.

Eckoh's customer contact solutions enable enquiries and transactions to be performed on whatever device the customer chooses, allowing organisations to increase efficiency, lower operational costs and provide a true Omni-channel experience. We also assist organisations in transforming the way that they engage with their customers by providing support and transition services as they implement our innovative customer contact solutions.

Our large portfolio of clients come from a broad range of vertical markets and includes government departments, telecoms providers, retailers, utility providers and financial services organisations.

Introduction

Eckoh enjoyed a strong performance in the first half of our 2019 financial year, with strong momentum for new business contracted in both the UK and US. This included a return to growth in the UK and another period of strong growth in the US Secure Payments business.

The implementation of IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") has had the anticipated impact on Eckoh's profit and loss account. In the near term, it has reduced reported revenue and profitability, especially in the US operation. At the same time, it has strengthened recurring revenues and substantially increased levels of deferred revenue, which gives the Group excellent revenue visibility and a solid platform for continued, predictable growth in future periods. Add to that the significant increase in the value of our newly contracted business and we expect this to lead to faster levels of revenue growth over the coming periods.

In 2019 we will evolve our reported financial KPIs to ensure they accurately measure the performance and financial health of the business. As a result, we will cease reporting some KPI's used historically, if no longer deemed appropriate.

Given the delay in revenue being recognised following adoption of IFRS 15, an important KPI will be our levels of new business contracted. We are therefore pleased to report in the first six months of the financial year we have seen a significant increase in new business contracted, which grew 63% year on year to £14.2m (H1 FY18: £8.7m). Indeed, since period end, we have added further material contracts resulting in us having already now exceeded total new business for the full prior year of £15.3m.

Including renewals of existing client contracts, the total contracted business for the half-year is £16.8m, compared to £12.2m in the prior year. Going forward, given the average length of our contracts is more than three years and the revenue of individual clients is varied, we expect total renewal value to be spread unevenly between periods.

In the US, total new business contracted was $10.5m, an increase of 33% (H1 FY18: $7.9m). US Secure Payments performed especially well, with $9.5m of new business contracted, which was a record for any half year since we entered the US market, exceeding the total for the full prior year and 70% higher than the same period last year (H1 FY18: $5.6m). Our focus on larger contracts means that in future periods the timing of such wins remains hard to predict.

In the UK we grew revenue and gross profit, as well as new business contracted, showing the benefit of the restructure of the sales function in FY18. New business contracted was £6.2m in the first half, greater than the £6.0m delivered in the whole of FY18. This positive impact is also starting to be recognised in revenue, which grew by 4.7% to £9.4m (H1 FY18[1]: £9.0m), gross profit grew by 5.1% to £8.0m (H1 FY18[1]: £7.6m) and gross profit margin increased by 1% to 85%.

A clear growth strategy

Our strategic objectives remain consistent, reflecting our aim to become the global leader in our areas of expertise, and in particular, Contact Centre security.

Our objectives include:

- Expanding our US footprint and the size of our team to capitalise on the fast-growing market for secure payment opportunities
- Broadening channel partnerships in both UK and US markets
- Continuing to extract value from the businesses acquired in recent years
- Continuing to invest in R&D to underpin next generation product development; protect and enhance our proprietary technologies; and maintaining our market leading position
- Maximising client value through cross-selling
- Continuing to evaluate acquisition opportunities that can support our growth strategy, where timely and accretive, but on an opportunistic basis

Operational Review

US Division (55% of Group new business won, 28% of Group revenue, 79% recurring revenue)

The US division achieved new business contracted of $10.5m, an increase year on year of 33%. Revenue in the period was $4.9m, which is a decrease of 14% (H1 FY18[1]: $5.7m), with growth in Secure Payments offset by a short-term decline in our Support, Coral and Other revenue lines.

US Secure Payments continued to see strong growth, with revenues up 67%. Since Eckoh entered the US market in 2015, new business contracted has grown from $0.3m in FY15 to $9.5m in HY19. The record levels of new business contracted in this period exceeded the full prior year and included our largest ever contract win. This was a two-year contract worth $7.4m to provide secure payment solutions to one of the largest corporations in the United States, won in a competitive tender process.

The reason for the overall reduction in US revenue is twofold. Secure Payments revenue is the only sales activity in the US impacted by IFRS 15, but only for our lead tokenisation solution. Our other payments offering, which has a more limited scope (it protects just the contact centre agent, desktop and call recording equipment), is not impacted. Previously, approximately 25% of new contracts were for this payments solution, but there were none in this period. This meant that a proportion of Secure Payment revenues expected to be recognised in this year have instead been contracted as arguably better-quality earnings, which will now be recognised over future periods. This is reflected in the increase and size of the Secure Payments order book that has grown by 78% to $21.7m from $12.2m a year ago.

Secondly, we saw a reduction in revenue from Support and Coral. The nature of Support agreements is that they generally begin and end with relatively little notice making them harder to predict. Coral, as previously stated, has low visibility. This can lead to greater variation in any one period from these activities compared to Secure Payments, which is largely underpinned by high levels of recurring revenue. Support declined year on year because our largest client ceased part of their contract during the previous year, but we would expect it to grow again in the second half. Similarly, Coral had no new license orders in the first half, in contrast to last year, however we do expect orders in the second half. So, we would not expect the overall reduction in revenue in the first half to be repeated in the second half. Indeed, the improved visibility from new business and revenue deferred under IFRS 15 shows current year US revenue now at $11.6m.

The Group's US focus remains on three sales activities where it has the greatest differentiation and the least competition. The performance of these activities in the US is summarised below.

- **Secure Payments** revenue grew 67% to $1.8m, representing 36% of the US division's revenue compared to $1.1m and 19% for the same period last year.

- **Support** revenue accounted for 50% of revenue in the period at $2.4m and declined by 24% year on year (H1 FY18[1]: $3.2m) due to our largest client partially ceasing some of their support activity.

- **Coral** had revenue of $0.6m in the period and decreased by 28% year on year (H1 FY18[1]: $0.9m) and other product revenues in the period were nil (H1 FY18: $0.5m).

<u>Secure Payments</u>

Since Eckoh entered the US market in 2015, the total of new business contracted for Secure Payments contracts has grown significantly each year, as shown below.

Financial Year	FY15	FY16	FY17	FY18	H1 FY19
New Business Contracted	$0.3m	$1.6m	$8.3m	$9.3m	$9.5m

In the first half of 2019 a record level of new business has been won with a value of $9.5m, already more than the total for the previous year and since period end we have won further contracts. The pipeline remains strong and is growing.

The Company is focused on large enterprise contracts, the size and timing of which are difficult to forecast and in the first half we won our largest ever payments contract at $7.4m, which we expect to go live late in the second half. As a result of this contract, the average contract value in this period is significantly greater than the $750k average contract size we have typically expected to see.

Recurring revenues for the year in the US were 79% (H1 FY18[1]: 72%) and we anticipate this to grow further as the proportion of revenue from Secure Payments increases. Progress continues to be made on broadening our partner channels for Secure Payments, and we have added NICE InContact as a partner in expectation that we will start to see opportunities in the Cloud Contact centre space that are of a sufficient size and value. However, all contracts won so far this year have again been for solutions where we implement on site and we expect this trend to continue for some time for the large enterprises. Nevertheless, our recent annual PCI DSS audit for our level 1 accreditation also included our platform in Amazon Web Services, which enables us to deploy Cloud solutions where required.

Support

In Support, we provide third party support within large Contact Centre operations for software and hardware from vendors such as Avaya, Cisco, Genesys and Aspect. Revenues declined year on year by 28%, principally due to the large three-year contract that commenced in July 2016 with a major US telecommunications company reducing in scope and value as expected from September 2017. We continue to pursue new Support opportunities and see this activity as a key part of our US strategy as we seek to leverage our US staff across all our sales channels. The customers for whom we provide support can also be excellent prospects for both our Secure Payments and Coral product, as seen from the lucrative contracts the Group has already won through cross-selling. However, as noted earlier, the nature of Support contracts is that they begin and end with relatively short notice, which can lead to a fluctuation in revenue between periods.

Coral

In the period there have been no additional licence sales achieved for the Coral product, but as explained previously, the sale of the licences is unpredictable in timing although we do anticipate orders in the second half. Coral is a browser-based desktop that increases efficiency by bringing all the contact centre agent's communication tools into a single screen. It also enables organisations, particularly those who have grown by acquisition, to standardise their Contact Centre facilities, as Coral can be implemented in environments that operate on entirely different underlying technology.

UK Division (45% of Group new business won, 72% of Group revenue, 90% recurring revenue)

The UK division returned to growth in the half year, following the restructuring of the sales team and realignment to focus on larger, more strategic opportunities. This was reflected in more contract wins through the partnership channel, and a significantly improved level of new contracted business.

The division achieved new business contracted of £6.2m in the first half, an increase year on year of 127% (H1 FY18[1] £2.7m) and a total greater than that achieved in the full prior year.

In the UK, unlike the US, the Group sells its full portfolio of services, the vast majority of which are delivered through Eckoh's hosted platform. IFRS 15 impacts these, although the impact is not as great as the US due to the more mature nature of our business in the UK.

Revenue in the period was £9.4m, an increase on last year of 4.7% (H1 FY18[1]: £9.0m), and gross profit increased 5.1% to £8.0m (H1 FY18[1]: £7.6m). Gross margins in the UK improved in the period by 1% to 85% (H1 FY18[1]: 84%) and recurring revenue has decreased as expected to 90% from (H1 FY18[1]: 93%). Over the next three years, we would expect recurring revenue to fall back to the level pre-implementation of IFRS 15, a steady state of approximately 86%.

It was pleasing to see the improvement in revenue and new business, which can be attributed to the action taken last year when revenue reduced for the first time in many years. The sales function was restructured and the team re-focused on larger, more complex opportunities, where Eckoh's breadth of portfolio and expertise delivers more value to the client and differentiates us.

There was also greater emphasis placed on our indirect sales channel and this has in turn yielded positive results. The Capita relationship which delivered no new contracts last year returned to more normal activity with the fifth significant contract won through the channel since the partnership was created in 2013, worth a minimum of £1.4m. The BT partnership, which has been in place since the outset of the Company, has also been rejuvenated delivering more new contracts in the first half than for some years. There were also significant contacts won through Maintel and Unify Communications and additional business added with allpay.

Looking at the segmentation of UK revenue, 26% came from Payment services (H1 FY18[1]: 27%), 29% from Customer Contact Solutions (H1 FY18[1]: 27%) and the remaining 45% from those clients where we provide a combination of both solutions (H1 FY18[1]: 46%). Our model of cross-selling to existing clients remains a key part of the Eckoh strategy, not just to generate incremental revenue but also to continue the trend of strong client retention and to further increase the lifetime value of the Group's customers. Of the new business contracted in the first half of the £6.2m secured, £1.3m was contracted with existing customers for delivery of new solutions or modifications. In addition to the new business, renewals of £1.1m were contracted.

Since the period end, we are pleased to report that the Vue contract, which is expected to be worth £2m over three years and the largest to come up for renewal this year, has been renewed for a further 3 years taking the relationship to 18 years, making them our longest serving client.

Innovation

Building upon the successful acquisition of Klick2Contact in July 2016, since the two-year earn out concluded, we have been able to press ahead with the amalgamation of their technology with Eckoh's. We have now completed the work to bring voice contacts seamlessly into the Omnichannel environment, now known as the Eckoh Experience Portal ('EXP'). This brings together the complete contact history for customers across all channels with voice alongside Live Chat, Email, Social and Chatbot interactions creating a single Omnichannel conversation with consumers and incorporating Eckoh's patented secure payment solutions.

The newest service to be incorporated into EXP is a Cloud call recording service that will enable clients to capture and store recordings with full MiFID II compliance. This will be followed before the end of the year by the addition of sentiment analysis that will enable clients to determine not just what a customer's requirement is, but what their emotional state is. Vue, who have recently renewed their contract, will be one of the first clients to deploy EXP.

Current Trading and Outlook

Given the nature of its business, Eckoh has always operated a model where the second half of the financial year is more profitable than the first. This will remain the case after the implementation of IFRS 15 as revenue is not recognised until client services are delivered or live, and the average number of clients that will be operational will be greater in the second half than in the first half, particularly in the fast growing Secure Payments part of the US business.

As we continue to make progress in the US, combined with the size of the opportunity in that market, it is our belief that the US will ultimately surpass the UK. Eckoh remains at the forefront of contact centre security and our patents now underpin all our US payments revenue creating a key differentiator and barrier to future competitors.

As we enter the second half, considering the contracts we have already won and the forecast of delivery of the solutions to our clients, we have a solid platform for predictable significant growth and remain confident in the outlook for future periods. We are excited by the prospects for the Group.

Financial Review

The Group has adopted IFRS 15 from 1st April 2018, the prior year financial statements and the opening retained earnings at 1 April 2017 have been restated. Full disclosures of the impact of the adoption of IFRS 15 are in note 6.

As a result of the implementation of IFRS 15, to understand the growth of the business, the revenue reported in the profit and loss account, needs to be reviewed in conjunction with the new business that has been secured during the first half and the level of deferred costs and liabilities held on the balance sheet. This new business and increased levels of deferred revenue will continue to support future revenue growth as our solutions are delivered to clients and we are able, under IFRS 15 to start to recognise revenue.

Revenue

Revenue for the period was £13.1m (H1 FY18[1]: £13.4m). Movements in revenue between the US and UK divisions have been addressed in the Operational Review above.

	H1 FY19 (UK) £000	**H1 FY19 (US) £000**	**H1 FY19 Total £000**	H1 FY18 (UK) Restated £000	H1 FY18 (US) Restated £000	H1 FY18 Total Restated £000
Revenue	**9,433**	**3,676**	**13,109**	9,007	4,379	13,386
Gross Profit	**7,992**	**2,980**	**10,972**	7,602	3,777	11,379
Gross margin	**85%**	**81%**	**84%**	84%	86%	85%

Gross profit margin was 84% for the first half of 2019 compared to 85% for the first half of 2018. The UK business improved gross profit margin by 1% to 85%. In the US the margin decreased from 86% to 81% in first half 2018 due principally to the loss of revenue from support activity and implementation of US Secure payment clients. As new secure payment clients went live during the half, the margin decreased due to the hardware delivered as part of the Secure Payment solutions.

In the UK, as the service is hosted on an Eckoh platform there is typically no hardware provided to clients. In the US, due to the impact of IFRS 15, and the growth in the Secure Payments activities, which are typically provided through our lead product Audio tokenisation onsite and require hardware to be provided, we would expect, over the next three years, the gross profit margin to gradually decrease to approximately 75%.

Administrative expenses
Total administrative expenses were £11.1m in the period, compared to £11.5m for the same period last year. Adjusted administrative expenses were £10.0m compared to £10.1m for the same period last year. In the first half of 2019, the goodwill on the acquisition of Veritape has become fully amortised. In the first half of 2018, the deferred consideration in relation to the K2C earn-out was released.

Profitability Measures
Adjusted EBITDA for the period was £1.6m, a decrease year on year of 15% (H1 FY17: £1.9m).

	Six months ended 30 Sept 2018 £'000	Six months ended 30 Sept 2017 Restated £'000	Year ended 31 March 2018 Restated £'000
(Loss) / profit before tax	**(197)**	**822**	**1,084**
Amortisation of intangible assets	**773**	1,031	2,329
Legal fees and settlement costs	**-**	-	595
Expenses relating to share option schemes	**420**	315	793
Interest receivable	**(16)**	(3)	(34)
Finance income	**-**	(975)	(975)
Interest payable	**40**	47	118
Adjusted operating profit[1]	**1,020**	1,237	3,910
Depreciation	**495**	485	914
Amortisation	**102**	188	325
Adjusted EBITDA[2]	**1,617**	**1,910**	**5,149**

Finance income
In the six months ended 30 September 2017 and the year ended 31 March 2018 finance income includes a credit of £975k relating to the K2C contingent consideration.

Finance expense
For the financial period ended 30 September 2018, the net interest charge was £24k (H1 FY18: £44k).

Deferred liabilities and assets
Deferred liabilities and deferred assets have both increased as a result of the adoption of IFRS 15 *Revenue from Contracts with Customers,* with the increase in deferred revenue, the Group has an improved visibility of future revenues. Total deferred liabilities were £12.7m (H1 FY18[1]: £8.6m), included in this balance are £11.7m of deferred liabilities relating to the Secure Payments product or hosted platform product, an increase from £6.6m at the same time in the previous year, a year on year increase of 77%. Deferred assets as at 30 September were £2.5m compared to £1.4m at 30 September 2017.

Cashflow and liquidity
Net cash at 30 September 2018 was £3.4m, an improvement of £1.7m to the previous year and a marginal decrease from 31 March 2018 of £0.2m. In the period the Company has repaid £0.7m of the loans outstanding to Barclays Bank in accordance with the terms of the loan. During the period, there was a cash outflow of £0.4m for legal fees and settlement costs recorded in last year's profit and loss account. Adjusting for the cash outflow for legal fees and settlement costs, there has been a net cash outflow for trade debtors, trade creditors, inventory and tax of £0.4m (H1 FY18[1]: cash inflow £0.4m).

Consolidated statement of comprehensive income
for the six months ended 30 September 2018

	Six months ended 30 September 2018 £'000	Six months ended 30 September 2017 £'000 Restated	Year ended 31 March 2018 £'000 Restated
Continuing operations			
Revenue	**13,109**	13,386	27,237
Cost of sales	**(2,137)**	(2,007)	(3,747)
Gross profit	**10,972**	11,379	23,490
Administrative expenses	**(11,145)**	(11,488)	(23,297)
(Loss)/ profit from operating activities	**(173)**	(109)	193
Adjusted operating profit	**1,020**	1,237	3,910
Amortisation of acquired intangible assets	**(773)**	(1,031)	(2,329)
Legal fees and settlement costs	**-**	-	(595)
Expenses relating to share option schemes	**(420)**	(315)	(793)
Loss from operating activities	**(173)**	(109)	193
Interest payable	**(40)**	(47)	(118)
Finance income	**-**	975	975
Interest receivable	**16**	3	34
(Loss) / profit before taxation	**(197)**	822	1,084
Taxation credit / (charge)	**30**	(41)	482
(Loss) / profit for the period	**(167)**	781	1,566

(Loss) / profit per share expressed in pence			
Basic earnings per 0.25p share	**(0.07)**	0.32	0.63
Diluted earnings per 0.25p share	**(0.07)**	0.31	0.60

Other comprehensive income			
Items that will be reclassified subsequently to profit or loss:			
Foreign currency translation differences – foreign operations	**(392)**	(242)	(157)
Other comprehensive income for the period, net of income tax	**(392)**	(242)	(157)
Total comprehensive (loss) / income for the period attributable to the equity holders of the parent company	**(559)**	539	1,409

Consolidated statement of financial position
as at 30 September 2018

	30 September 2018 £'000	30 September 2017 £'000 Restated	31 March 2018 £'000 Restated
Assets			
Non-current assets			
Intangible assets	**7,433**	8,811	7,959
Tangible assets	**4,637**	4,818	4,703
Deferred tax asset	**3,701**	3,275	3,790
	15,771	16,904	16,452
Current assets			
Inventories	**585**	622	724
Trade and other receivables	**14,248**	11,233	11,943
Cash and cash equivalents	**7,324**	6,909	8,164
	22,157	18,764	20,831
Total assets	**37,928**	35,668	37,283
Liabilities			
Current liabilities			
Trade and other payables	**(16,694)**	(13,683)	(15,891)
Other interest-bearing loans and borrowings	**(1,300)**	(1,300)	(1,300)
	(17,994)	(14,941)	(17,191)
Non-current liabilities			
Other interest-bearing loans and borrowings	**(2,600)**	(3,900)	(3,250)
Deferred tax liability	**(563)**	(976)	(674)
	(3,163)	(4,876)	(3,924)
Net assets	**16,771**	15,809	16,168
Shareholders' equity			
Share capital	**632**	630	631
ESOP Reserve	**(318)**	(158)	(238)
Capital redemption reserve	**198**	198	198
Share premium	**2,640**	2,641	2,640
Merger reserve	**2,697**	2,697	2,697
Currency reserve	**708**	231	316
Retained earnings	**10,214**	9,570	9,924
Total shareholders' equity	**16,771**	15,809	16,168

Consolidated interim statement of changes in equity
as at 30 September 2018

	Share capital £'000	ESOP Reserve £'000	Capital redemption reserve £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Currency reserve £'000	Total shareholders' equity £'000
Balance at 1 April 2017[1]	**611**	**(83)**	**198**	**2,660**	**2,697**	**13,172**	**473**	**19,728**
Restatement (IFRS 15)	-	-	-	-	-	(4,532)	-	(4,532)
Balance at 1 April 2017 (restated)	**611**	**(83)**	**198**	**2,660**	**2,697**	**8,640**	**473**	**15,196**
Total comprehensive income for the period	-	-	-	-	-	781	-	781
Shares transacted through Employee Benefit Trust	-	1	-	-	-	(8)	-	(7)
Purchase of own shares	-	(76)	-	-	-	-	-	(76)
Shares issued under the share option schemes	19	-	-	(19)	-	-	-	-
Retranslation	-	-	-	-	-	-	(242)	(242)
Share based payment charge	-	-	-	-	-	157	-	157
Balance as at 30 September 2017	630	(158)	198	2,641	2,697	9,570	231	15,809

1. Balance at 1 April 2017 was restated in the Financial Statements 31 March 2018

	Share capital £'000	ESOP Reserve £'000	Capital redemption reserve £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Currency reserve £'000	Total shareholders' equity £'000
Balance at 1 April 2018	631	(238)	198	2,640	2,697	9,924	316	16,168
Total comprehensive income for the period	-	-	-	-	-	(167)	-	(167)
Shares transacted through Employee Benefit Trust	-	-	-	-	-	3	-	3
Purchase of own shares	-	(80)	-	-	-	-	-	(80)
Dividends paid in the year	-	-	-	-	-	-	-	-
Shares issued under the share option schemes	1	-	-	-	-	-	-	1
Retranslation	-	-	-	-	-	-	392	392
Share based payment charge	-	-	-	-	-	454	-	456
Balance at 30 September 2018	**632**	**(318)**	**198**	**2,640**	**2,697**	**10,214**	**708**	**16,771**

Consolidated statement of cash flows
for the six months ended 30 September 2018

	Six months ended 30 September 2018 £'000	Six months ended 30 September 2017 Restated £'000	Year ended 31 March 2018 Restated £'000
Cash flows from operating activities			
Cash generated from operations	**247**	1,921	5,855
Taxation	**120**	-	(12)
Net cash generated from continuing operating activities	**367**	1,921	5,843
Cash flows from investing activities			
Purchase of property, plant and equipment	**(441)**	(280)	(647)
Purchase of intangible fixed assets	**(22)**	(39)	(323)
Proceeds from sale of tangible fixed assets	**6**	-	-
Proceeds from sale of intangible fixed assets	**-**	-	6
Interest paid	**(40)**	(47)	(118)
Interest received	**16**	3	34
Net cash utilised in continuing investing activities	**(481)**	(362)	(1,048)
Cash flows from financing activities			
Dividends paid	**-**	-	(1,209)
Repayment of borrowings	**(650)**	(650)	(1,300)
Purchase of own shares	**(80)**	(76)	(156)
Issue of shares	**1**	-	-
Shares acquired by Employee Benefit Trust	**3**	(7)	(49)
Net cash utilised in continuing investing activities	**(726)**	(733)	(2,714)
(Decrease) / increase in cash and cash equivalents	**(840)**	826	2,081
Cash and cash equivalents at the start of the period	**8,164**	6,083	6,083
Cash and cash equivalents at the end of the period	**7,324**	6,909	8,164

Notes to the interim financial statements
For the six months ended 30 September 2018

1. Basis of preparation

These consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union and should be read in conjunction with the Group's last annual consolidated financial statements as at and for the year ended 31 March 2018, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and applicable law. They do not include all of the information required for a complete set of International Financial Reporting Standards ("IFRS") financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

The unaudited interim financial information for the period ended 30 September 2018 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2066. The comparative figures for the year ended 31 March 2018 are extracted from the statutory financial statements which have been filed with the Registrar of Companies and contain an unqualified audit report and did not contain statements under Section 498 to 502 of the Companies Act 2006.

The statutory financial statements for the year ended 31 March 2018 detail the IFRSs which will be effective in the financial year's ending 31 March 2019, 31 March 2020 and 31 March 2022. The statutory financial statements for the year ending 31 March 2018 included an estimate of the impact on the Group of the implementation of IFRS 15. The Group has adopted IFRS 15 from 1 April 2018 and the prior year comparison and the opening reserves at 1st April 2017 have been restated. Note 6 discloses the impact of adoption of IFRS 15. The Group has also adopted IFRS 9 – *Financial Instruments* on 1 April 2018, this has been adopted prospectively with no retrospective adjustments and as disclosed in the financial statements for the year ended 31 March 2018 there is no material change as a result of adopting the standard.

The directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. The Group's liquidity and going concern review can be found in the Management Report on page 7.

2. Dividends

The proposed dividend of £1.4m for the year ended 31 March 2018 of 0.55p per share was paid on 26 October 2018.

3. Earnings per share

The basic and diluted earnings per share are calculated on the following profit and number of shares. Earnings for the calculation of earnings per share is the net profit attributable to equity holders of the parent.

	Six months ended 30 September 2018	Six months ended 30 September 2017 Restated	Year ended 31 March 2018 Restated
	£000	£000	£000
(Loss) / earnings for the purposes of basic and diluted earnings per share	**(167)**	781	1,566

Denominator	**Six months ended 30 September 2018 '000**	Six months ended 30 September 2017 '000	Year ended 31 March 2018 '000
Weighted average number of shares in issue in the period	**247,425**	245,641	247,424
Shares held by employee ownership plan	**(1,070)**	(550)	(805)
Number of shares used in calculating basic earnings per share	**246,355**	245,091	246,619
Dilutive effect of share options	**11,040**	10,902	12,384
Number of shares used in calculating diluted earnings per share (where applicable)	**257,396**	255,993	259,003

4. Cash flow from operating activities

	Six months ended 30 September 2018 £'000	Six months ended 30 September 2017 £'000	Year ended 31 March 2018 £'000
(Loss) / profit after taxation	**(167)**	781	1,566
Interest income	**(16)**	(3)	(34)
Finance income	**-**	(975)	(975)
Interest payable	**40**	47	118
Taxation	**(142)**	41	(485)
Depreciation of property, plant and equipment	**495**	485	914
Exchange differences	**71**	(241)	(264)
Amortisation of intangible assets	**875**	1,219	2,654
Legal fees and settlement costs	**(443)**	-	(152)
Share based payments	**454**	157	554
Operating profit before changes in working capital and provisions	**1,167**	1,511	3,896
Decrease/ (increase) in inventories	**139**	91	(11)
(Increase)/ decrease in trade and other receivables	**(2,305)**	1,046	488
Decrease/ (increase) in trade and other payables	**1,246**	(727)	1,482
Net cash generated in operating activities	**247**	1,921	5,855

5. Subsequent events to 30 September 2018

As at the date of these statements there were no such events to report.

6. Changes in accounting policies

This note explains the impact of the adoption of IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1st April 2018, where they are different to those applied in prior periods.

Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. IFRS 9 *Financial Instruments* was implemented without restating comparative information, on the grounds of materiality. IFRS 15 *Revenue from Contracts with Customers* was adopted and the prior year financial statements have been restated. The tables below show the adjustments recognised for each individual line item for the periods ending 30 September 2017 and 31 March 2018. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed can not be recalculated from the numbers provided. The adjustments are explained in more detail below.

Balance sheet (extract)	30 September 2017 As originally presented £'000	IFRS 15 £'000	30 September 2017 Restated £'000
Deferred tax asset	**3,139**	136	**3,275**
Total Non-Current assets	**16,768**	136	**16,904**
Trade and other receivables	**9,805**	1,428	**11,233**
Total Current assets	**17,336**	1,428	**18,764**
Total assets	**34,104**	1,564	**35,668**
Trade and other payables	**(6,975)**	(6,708)	**(13,683)**
Total Current Liabilities	**(8,275)**	(6,708)	**(14,983)**
Net assets	**20,953**	(5,144)	**15,809**
Currency reserve	**263**	(32)	**231**
Retained earnings	**14,682**	(5,112)	**9,570**
Net cash generated in operating activities	**20,953**	(5,144)	**15,809**

Statement of profit or loss and other comprehensive income (extract) – 6 months to 30 September 2017	As originally presented £'000	IFRS 15 £'000	Cost of Sales[1] £'000	Restated £'000
Revenue	**14,809**	(1,423)	**-**	**13,386**
Cost of sales	**(3,807)**	638	1,162	**(2,007)**
Gross profit	**11,002**	(785)	1,162	**11,379**
Administrative expenses	**(10,395)**	69	(1,162)	**(11,488)**
Profit/ (loss) from operating activities	**607**	(716)	-	**(109)**
Profit / (loss) before taxation	**1,538**	(716)	-	**822**
Taxation	**(177)**	136	-	**(41)**
Profit for the period	**1,361**	(580)	-	**781**
Profit per share expressed in pence	**pence**	pence	pence	**Pence**
Basic earnings per 0.25p share	**0.55**	(0.23)	-	**0.32**
Diluted earnings per 0.25p share	**0.53**	(0.22)	-	**0.31**

1. As a result of the implementation of IFRS 15 *Revenue from Contracts with Customers* management have reviewed the type of costs being recorded in cost of sales in the UK division and the US division. As part of this review, it was identified that the costs relating to the on-going support of client solutions were not being treated consistently. The above restatement of costs from cost of sales to administrative expenses aligns the US business to the UK business.

Balance sheet (extract)	31 March 2018 As originally presented £'000	IFRS 15 £'000	31 March 2018 Restated £'000
Deferred tax asset	**3,533**	257	**3,790**
Total Non-Current assets	**16,195**	257	**16,452**
Trade and other receivables	**9,835**	2,108	**11,943**
Total Current assets	**18,723**	2,108	**20,831**
Total assets	**34,918**	2,365	**37,283**
Trade and other payables	**(7,885)**	(8,006)	**(15,891)**
Total Current Liabilities	**(9,185)**	(8,006)	**(17,191)**
Net assets	**21,809**	(5,641)	**16,168**
Currency reserve	**329**	(13)	**316**
Retained earnings	**15,552**	(5,628)	**9,924**
Net cash generated in operating activities	**21,809**	(5,641)	**16,168**

Statement of profit or loss and other comprehensive income (extract) – 12 months to 31 March 2018	As originally presented £'000	IFRS 15 £'000	Cost of Sales[1] £'000	Restated £'000
Revenue	**30,005**	(2,768)		**27,237**
Cost of sales	**(7,120)**	1,250	2,123	**(3,747)**
Gross profit	**22,885**	(1,518)	2,123	**23,490**
Administrative expenses	**(21,341)**	167	(2,123)	**(23,297)**
Profit from operating expenses	**1,544**	(1,351)	-	**193**
Profit / (loss) before taxation	**2,435**	(1,351)	-	**1,084**
Taxation	**225**	257	-	**482**
Profit for the year	**2,660**	(1,094)	-	**1,566**
Profit per share expressed in pence	**pence**	pence	pence	**pence**
Basic earnings per 0.25p share	**1.08**	(0.45)	-	**0.63**
Diluted earnings per 0.25p share	**1.03**	(0.43)	-	**0.60**

1. As a result of the implementation of IFRS 15 *Revenue from Contracts with Customers* management have reviewed the type of costs being recorded in cost of sales in the UK division and the US division. As part of this review, it was identified that the costs relating to the on-going support of client solutions were not being treated consistently. The above restatement of costs from cost of sales to administrative expenses aligns the US business to the UK business.

IFRS 15 – *Revenue from Contracts with Customers* – Impact of adoption

The Group has adopted IFRS 15 from 1 April 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the group has adopted the new rules retrospectively and has restated comparatives both for the 2018 financial year and the opening balance sheet. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 April 2018).

(i) Revenue

From 1st April 2017 hardware and implementation fees previously recognised in revenue during the implementation phase of the client projects delivering either a Secure Payments solution or hosted service have been restated under IFRS 15, the hardware & implementation fees have been deferred into deferred revenue and held in the balance sheet. In addition the opening balance sheet has been restated for current contracts, where implementation fees and hardware have been recognised in revenue prior to 1 April 2017. The net impact of this restatement is a reduction in previously reported revenue of £1.4m for the 6 month period to 30 September 2017 and £2.8m for the 12 month period to 31 March 2018. The total deferred liability restated at 30 September 2017 is £6.7m and at 31 March 2018 is £8.0m.

Recurring revenue, a Key performance Indicator for the business has been restated and was 86% for the 6 month period to 30 September 2017 and 85% for the 12 month period to 31 March 2018. This is as management expect and will gradually, over the next 3 years, fall back to somewhat higher than the 76% group recurring revenue reported for the year ended 31 March 2018 due to the growth of the US secure payments.

(ii) Cost of Sales

Costs directly attributable to the delivery of the hardware and the implementation fees have been capitalised as 'costs to fulfil a contract'. The net impact of this restatement is a reduction in previously reported cost of sales of £0.6m for the 6 month period to 30 September 2017 and £1.3m for the 12 month period to 31 March 2018. The total deferred costs restated at 30 September 2017 is £1.4m and at 31 March 2018 is £2.1m.

(iii) Commission costs (administrative expenses)

Commission paid to members of the sale team for the signing of specific contracts has been deferred onto the balance sheet and held in other current assets and will be matched to the revenue over the period of the contract term. Commission costs of £0.1m for the 6 month period to 30 September 2017 and £0.2m for the 12 month period to 31 March 2018 have been capitalised into other current assets. No further restatement was made to the opening balance sheet due to materiality.

(iv) Deferred tax assets – remeasurement

As a result of the adjustments under the above three headings the impact to the profit of the business for the 6 month period to 30 September 2017 was reduced by £0.6m and for the 12 month period to 31 March 2018 was reduced by £1.1. The tax charge and utilisation of deferred tax was remeasured and an adjustment of £0.1m made for the 6 month period to 30 September 2017 and £0.3m for the 12 month period to 31 March 2018.

IFRS 15 – *Revenue from Contracts with Customers – Accounting policies*

IFRS 15 provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. Revenue represents the fair value of the sale of goods and services and after eliminating sales within the Group and excluding value added tax or overseas sales taxes. The following summarises the method of recognising revenue for the solutions and products delivered by the Group.

(i) Secure Payment solutions and hosted services

Due to the unique nature of the secure payments solution, the delivery and on-going support and maintenance of the secure payments solution under IFRS 15 is one single performance obligation, therefore revenue for implementation fees for our hosted Secure Payments solution and our hosted Customer Contact services; and revenue for hardware and implementation fees for our hosted or onsite Secure Payments Audio tokenisation solution will be recognised evenly over the period of the contract from the point of delivery of the solution to the client. Costs directly attributable to the delivery of the hardware, the implementation fees and the sales commission costs will be capitalised as 'costs to fulfil a contract' and released over the contract term from the point of delivery of the solution to the client.

In addition to the initial set-up costs, there are on-going support and maintenance and running costs of the service. In the UK the revenue is typically recognised on a transaction basis, where the business has determined that users have accessed its services via a telephone carrier network and/or the Group's telecommunications call processing equipment connected to that network. In the US business where the Secure Payments business is contracted on an opex style basis the monthly license fee charged to the client is recognised in the month it relates to.

(ii) Support services

Revenue is earnt from providing expert third party support for Contact Centre infrastructure and is recognised on a pro-rated basis over the period of the contract.

(iii) Coral product

Revenue arises from the sale of licences, implementation fees and on-going support and maintenance. Under IFRS 15, each component is defined as a performance obligation. Revenue is recognised for sales of licences when they are delivered to the client; revenue from implementation fees is recognised by estimating a percentage of completion based on the direct labour costs incurred to date as a proportion of the total estimated costs required to complete the implementation; and revenue for on-going support and maintenance is recognised each month.

IFRS 9 – *Financial Instruments – Accounting policies*

The Group does not enter into forward contracts to hedge forecast transactions.