24 November 2014

Eckoh plc
('Eckoh' or 'the Group')

Unaudited interim results for the six months ended 30 September 2014

A further period of significant growth combined with successful US execution

Eckoh plc (AIM: ECK), a global provider of secure payment products and customer service solutions, is pleased to announce its unaudited results for the six months to 30 September 2014.

Financial Highlights:

- Revenue increased 24% to £7.8m (H1 2013/4: £6.3m), recurring revenue now 81% of total revenue
- Gross margin increased 27% to £5.6m (H1 2013/4: £4.4m)
- Adjusted* operating profit increased 41% to £1.0m (H1 2013/4: £0.7m)
- Adjusted* EBITDA increased 29% to £1.6m (H1 2013/4: £1.2m)
- Debt free financial position with £4.1m cash (H1 2013/4: £4.3m)

Operational Highlights:

- New US division gathering sales momentum – three new contracts secured since results in June
- Strong new business progress within core UK operations
  - Eight new contracts secured in the period including Co-operative Energy, Group Central Services Limited, Lifestyle Services Group, Bromford Housing, Tenpin Limited, Brookfield Utilities and a large UK financial services company
- Long term contract renewals secured with Barclays and Royal Mail
- Dual site technical platform to support large scale CallGuard and OneProx hosted solutions in the US now completed and ready for use
- Acquired freehold for Hemel Hempstead headquarters
- UK patent awarded for CallGuard product

Current Trading:

- Recently awarded new three year contract via a channel partner for a payment solution with a leading insurance finance company
- US sales pipeline significantly higher than initial expectations driven by indirect sales partner activity and direct Eckoh mandates
- US subsidiary trading profitably in the second half of 2014/5 to date
- OneProx product now live with first client
- Current trading remains in line with market expectations

*excludes acquisition costs, amortisation of acquired intangibles and share option expenses

Nik Philpot, Chief Executive Officer, commented today:

"Our strong first half performance has seen the Group deliver excellent growth in our core UK business, securing a significant number of new contracts in addition to making substantial progress in developing both our US business and sales pipeline.

"We have been delighted with the response to our secure payments offering in the US, where data security is now an issue under intense scrutiny from consumers, corporations and the White House itself. We will look to leverage this interest through both our channel relationship with the West Corporation and our direct sales

efforts. Having started to secure contracts in the US it is very pleasing to report that our US operations are already trading profitably, earlier than anticipated and less than a year after their inception.

"In view of this strong operational progress supported by the new contracts secured in the first half, the Group remains well positioned to deliver continued growth this year and beyond."

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Notes to Editors:

Eckoh

Eckoh plc (AIM: ECK) is a global provider of secure payment products and customer service solutions, working with organisations in over 10 countries around the world.

Eckoh has a range of secure payment products that are designed to help merchants become compliant with the Payment Card Industry Data Security Standards ('PCI DSS') and to reduce the risk of fraud by eliminating card data from contact centres and IT environments. Eckoh's CallGuard product can be deployed on the customer's site or hosted in the Cloud. It allows Contact Centres to take card payments from customers without their agents seeing, hearing or accessing card data in any way. Eckoh have been a PCI DSS Level One accredited Service Provider since 2010 and currently process over $1 billion in card payments annually.

Eckoh's customer service solutions enable payments, transactions and enquiries to be processed without the caller needing to talk to a contact centre agent. This significantly reduces our clients' costs, whilst freeing up their agents to deal with more complex enquiries. These solutions are delivered over the phone, web and mobile devices. Eckoh is the largest provider of such hosted services in the UK.

Operational Review

Introduction

We are pleased to report another period of strong financial growth driven by a strong performance in our core UK operations. This, coupled with further progress on our stated strategic objectives, continues to underpin our growth in the medium to long term.

In the results for the year ended 31 March 2014, announced in June, we were able to outline our near term growth strategy:

- Establish and expand our US footprint to capitalise on secure payment opportunities
- Leverage channel partners in both UK and US markets
- Maximise international opportunity for the combined Eckoh and Veritape product line
- Bring the new payment product OneProx to market
- Continue to invest in R&D to underpin next generation product development and maintain market leading position
- Continue to evaluate acquisition opportunities

We continue to make good progress across all these stated goals and believe the core Eckoh proposition remains highly compelling for corporate clients both in the UK, the US and other growth markets.

Operational review

We are pleased to report on the progress across all our stated growth objectives:

- *Establish and expand our US footprint to capitalise on secure payment opportunities / Maximise international opportunity for the combined Eckoh and Veritape product line*

Central to our ambitions to scale the business beyond the UK market has been the creation of our new US operation in November 2013, Eckoh Inc. and, following this, the securing of a five year exclusive reseller agreement with West Corporation ("West") which we announced in June 2014.

Throughout 2014 our confidence has grown in the scale of opportunity that exists for our portfolio of secure payment solutions in the US market. Following on from the high profile data breach first revealed in December 2013 suffered by Target Corporation, the second-largest discount retailer in the US, additional significant breaches have now been reported. In 2014 Staples, Nieman Marcus, JP Morgan Chase and Home Depot to name but a few, have all disclosed that they have been the victims of data breaches impacting millions of their customers, the latter disclosing that 54 million card details had been compromised. As a consequence a Gallup survey in October revealed that Americans are more likely to worry about having their card information stolen than any other crime they are asked about, with 69% reporting that they frequently or occasionally worry about this happening to them.

Underscoring the sensitive and widespread nature of these developments, in October President Obama signed a new Executive Order directing the US government to lead by example in securing transactions and sensitive data. In a subsequent press release the White House then called on all stakeholders to support the Administration in driving the economy toward more secure standards to safeguard consumer finances and reduce their chances of becoming victims of identity theft — America's fastest-growing crime.

A cornerstone of this initiative is the rapid adoption of EMV Technology, commonly known as 'Chip and Pin', which perhaps surprisingly has still not been adopted in the US. Whilst EMV will help reduce fraud in Card Present transactions, it does not address the issues in Card-Not-Present ("CNP") transactions, which is the sector that Eckoh's solutions address. A CNP transaction is a payment card transaction made where the cardholder does not or cannot physically present the card at the time that the order is given. These are typically transactions made over the phone, on the Internet, or by mail order. Recent studies from the Canadian Banker's Association and Financial Fraud Action UK clearly show that in markets where EMV is implemented, criminal activity to steal card details shifts to CNP transactions. Contact centres that employ large numbers of low-paid, largely transitory staff are likely to be prime targets for criminals, and with nearly 6m people employed in contact centres, we believe the US market is ideally suited to adopt our secure payment solutions.

Eckoh Inc. can assist corporations in securing their customers' personal data including credit card details and social security numbers by using our CallGuard solution. The early and significant interest we have seen for CallGuard has led to an acceleration of our expansion plans. From our first employee in February 2014, we now have five employees, with more recruitment planned before the end of the financial year.

We have closed three contracts through direct sales efforts since our results in June, which will generate revenue in the second half of our financial year. To date, the sales to these three clients, a law firm, contact centre operator and a world leading business process management company, have been for our patented CallGuard On-Site solution. In October we completed the build out of our dual site US technical platform that will enable us to provide CallGuard on a hosted basis to both West and direct customers. Our experience to date has shown that larger companies are attracted to a hosted solution and the ability to provide the solution on that basis should enable us to conclude on some larger deals.

- *Leverage channel partners in both UK and US markets*

Our exclusive five year reseller agreement with West, a leading provider of business process outsourcing and communication services across North America, began on 1 July 2014. The early months of this relationship have been spent training and supporting its large sales team on our CallGuard proposition. With that process now largely complete, its team has successfully developed an extremely valuable sales pipeline that is already several times larger than our UK equivalent. West has relationships with over 80% of the Fortune 500 and is concentrating its initial efforts on the largest opportunities, but these will inevitably have a longer sales cycle than the smaller, direct sales driven contracts currently being pursued by Eckoh's US team. We continue to work closely with West and are confident of assisting them in securing the first contracts before the end of the current financial year.

In the UK we have now been working closely with Capita Customer Management ("Capita") for 18 months and concluded on two very large contracts announced in the prior financial year. We are currently engaged with Capita in a number of discussions regarding new customer services contracts. We have also developed a number of innovative mobile solutions specifically for their customer base that have been received very favourably, illustrating the breadth of the solutions that we are engaging with them on.

We continue to win business with our established partners; we have just won a three year contract to provide payment services to a large UK insurance finance company which was secured through a long standing partner.

- *Bring the new payment product OneProx to market / Continue to invest in R&D to underpin next generation product development and maintain market leading position*

To ensure that the growth seen in recent years continues for the foreseeable future, it is critical that we continue to invest in Research & Development. The key focus this year has been in bringing our next payment product, OneProx, to market.

OneProx is a solution that works by acting as a gateway for card data as it enters and leaves an organisation's environment, replacing a card number with an encrypted number or a token. This method provides full de-scoping for PCI DSS compliance but means the token can be stored and recorded by the merchant (which later can search for or analyse the token as part of its management information reporting). Importantly, with no integration required with existing payment processes or IT systems, OneProx avoids complex and time-consuming implementation projects. Because OneProx can work with card data whatever the originating source, this will broaden the target market to include those companies that are predominantly Ecommerce or point of sale ("POS") orientated. This is where the large volume data breaches have generally emanated from.

The first application of the OneProx technology, to card transactions made over the phone, went live in November in the UK with an existing financial services client. In early 2015 we expect to be able to extend the solution to handle payments over websites and then mobile applications. Ultimately we intend to bring this technology to POS devices in retail outlets within 12-18 months, where we believe there is a huge opportunity, particularly with the imminent replacement of magstripe card terminals with EMV terminals throughout the US. There are currently patents pending for OneProx in the UK, Europe and US.

Our R&D team also continues to work on our omni-channel customer service framework that uses the concept of a timeline of events to build up a profile of how a customer chooses to interact, what they are doing at a given point in time and what their next action is likely to be. It allows data from all points of interaction – phone, web, mobile and live agent – to be shared in real time across these communication channels, ensuring that the customer can always be served in the most intuitive and convenient fashion. It is our belief that customer experience is moving rapidly towards this concept and because of our existing multi-channel capability Eckoh is ideally placed to be one of the leaders in delivering these new implementations.

- *Continue to evaluate acquisition opportunities*

We continue to evaluate selective acquisition opportunities which complement our product base or accelerate geographic expansion. The Board will only execute an opportunity which has a clear business fit and more importantly creates value for our shareholders.

Current trading and outlook

In addition to the contracts won in the US, and through BT in the period, we have secured a number of other contracts in the UK that will go live in the second half of the financial year and will ensure that the second half demonstrates accelerated progress as we have seen in previous years. New contracts in the period include:

- Group Central Services Limited – 3 year contract for CallGuard On-Site
- Co-operative Energy – initial one year contract for EckohPAY
- Lifestyle Services Group – 3 year contract for CallGuard Hosted
- Bromford Housing – 3 year contract for CallGuard Hosted
- Tenpin Limited – 3 year contract for provision of live agents
- Brookfield Utilities – initial one year contract for CallGuard On-Site
- A leading UK financial services company – 3 year contract for EckohPAY

We have also maintained a strong record in retaining contracts which have come up for renewal in the period; particular highlights include the renewals of Royal Mail and Barclays.

In the first half of the financial year we have incurred costs of £0.3m in order to establish the US operation. This cost has been expensed in the income statement with no revenue reported in the period. However, the contracts won in recent weeks have seen the US entity trading profitably in the beginning of the second half of the financial year and we fully expect that trend to continue as we capitalise on the near-term sales pipeline.

Across the business, whilst we see a large proportion of our sales opportunities still coming from payment solutions, we continue to work on developing a number of customer services prospects which are generally of far greater financial value due to the complexity of the development when compared to a payment solution. We also have a number of significant incremental projects underway with existing customers which will contribute to the second half. One of the most exciting of these is for one of our largest clients which is launching its services into the US market in December. We have been able to leverage our new US operation and US relationships to secure this activity, which could be a significant incremental revenue stream as we move into next year.

The trend in recent years has been for the Company to be significantly more profitable in the second half of the financial year, driven by both seasonal client volumes coupled with the implementation of new contracts secured in the first half. The Board fully expect that this trend will continue and therefore remains confident that trading for the current financial year will be in line with market expectations.

Financial Review

Revenue
The first half of the financial year saw revenue growth within the business of 24% from £6.3m to £7.8m. Margins arising from the revenue remain high at 72% (H1 FY14: 71%) and 81% of this revenue is represented by contracted recurring revenues. Gross margin increased from £4.4m to £5.6m, an increase of 27%.

Profitability Measures
The Company continues to benefit from excellent operational gearing. Despite the costs of setting up the US operation and a full six months of trading from our Veritape acquisition, we have seen only a 24% increase in administrative expenses.

Adjusting for expenses relating to share option schemes, acquisition costs and amortisation of acquired intangible assets, operating profit has increased from £0.7m to £1.0m, an increase of 41%. Similarly, adjusted EBITDA (calculated in the table below) has increased from £1.2m to £1.5m, an increase of 29%.

	6 months ended 30 Sept 2014 £'000	6 months ended 30 Sept 2013 £'000	Year ended 31 March 2014 £'000
Profit / (loss) before tax	**109**	**(1,417)**	**(1,367)**
Amortisation of intangible assets	**862**	477	1,306
Depreciation	**336**	335	678
Acquisition costs	-	146	175
Expenses relating to share option schemes	**480**	556	1,247
Interest receivable	**(10)**	(43)	(57)
Finance expense	**-**	1,158	1,214
Finance income (note 1)	**(211)**	-	-
Adjusted EBITDA	**1,566**	**1,212**	**3,196**

Statement of financial position
The Company continues to benefit from a strong debt free balance sheet. We have seen a reduction in cash since the year-end from £7.3m to £4.1m. This was primarily a function of a £2.4m advance payment made by Capita in respect of services to be provided for O2 being received in the prior year. This was largely shown as a deferred income in the year end statement of financial position and has been reduced in the current year to date with payables reducing from £5.4m to £3.5m. We have also seen a cash outflow of £0.7m arising from the payment of a dividend in September and capital investment of £0.4m arising from our hosted platform build in the US. Finally, we announced in July that we had reached agreement to acquire the freehold of the Company headquarters in Hemel Hempstead. We have paid a deposit of £0.4m to secure the acquisition and will pay the remaining £2.5m when the transaction completes in March 2015. We are considering financing options with regard to the building to ensure that we can continue to operate without working capital restrictions.

In August we announced that we had agreed an amendment to the contingent consideration agreed with the Veritape management. This resulted in the issue of 6.4m shares with the potential for a further 4.3m shares to be issued dependent on the success of the US operation. The contingent consideration has now decreased in value from £4.9m at 31 March to £2.0m as a result and this also saw a credit of £0.2m on the income statement as finance income arising from the agreement.

Statement of comprehensive income

for the 6 months ended 30 September 2014

	Six months ended 30 September 2014 £'000 (unaudited)	Six months ended 30 September 2013 £'000 (unaudited)	Year ended 31 March 2014 £'000 (audited)
Continuing operations			
Revenue	**7,780**	6,297	14,035
Cost of sales	**(2,153)**	(1,850)	(3,820)
Gross profit	**5,627**	4,447	10,215
Administrative expenses	**(4,599)**	(3,717)	(8,013)
Adjusted Operating Profit	**1,028**	730	2,202
Amortisation of acquired intangible assets	**(660)**	(330)	(990)
Expenses relating to share option schemes	**(480)**	(556)	(1,247)
Acquisition costs	**-**	(146)	(175)
Loss from operating activities	**(112)**	(302)	(210)
Finance expense	**-**	(1,158)	(1,214)
Finance income (note 1)	**211**	-	-
Interest receivable	**10**	43	57
Profit/(loss) before taxation	**109**	(1,417)	(1,367)
Taxation	**10**	716	1,665
Total comprehensive income /(expense) for the period	**119**	(701)	298

Profit / (Loss) per share expressed in pence			
Basic	**0.05**	(0.33)	0.14
Diluted	**0.05**	(0.32)	0.12

Consolidated statement of financial position
as at 30 September 2014

	30 September 2014 £'000 (unaudited)	30 September 2013 £'000 (unaudited)	31 March 2014 £'000 (audited)
Assets			
Non-current assets			
Intangible assets	**8,989**	10,681	9,636
Property, plant and equipment	**1,298**	922	862
Deferred tax asset	**4,472**	2,756	4,267
	14,759	14,359	14,765
Current assets			
Inventories	**149**	57	104
Trade and other receivables	**4,310**	3,972	3,576
Short-term investments	**-**	1,000	-
Cash and cash equivalents	**4,148**	3,323	7,341
	8,607	8,352	11,021
Total assets	**23,366**	22,711	25,786
Liabilities			
Current liabilities			
Trade and other payables	**(3,508)**	(3,537)	(5,444)
Contingent consideration	**(486)**	-	(1,952)
	(3,994)	(3,537)	(7,396)
Non-current liabilities			
Contingent consideration	**(1,458)**	(4,838)	(2,941)
Deferred tax liability	**(991)**	(1,321)	(1,123)
Provisions	**-**	(43)	(43)
	(2,449)	(6,202)	(4,107)
Net assets	**16,923**	12,972	14,283
Shareholders' equity			
Share capital	**556**	540	540
ESOP Reserve	**(22)**	-	(22)
Capital redemption reserve	**198**	198	198
Share premium	**5,133**	2,410	2,411
Currency reserve	**(41)**	(41)	(41)
Retained earnings	**11,099**	9,865	11,197
Total shareholders' equity	**16,923**	12,972	14,283

Consolidated interim statement of changes in equity
as at 30 September 2014
(unaudited)

	Share capital £'000	ESOP Reserve £'000	Capital redemption reserve £'000	Share premium £'000	Retained earnings £'000	Currency reserve £'000	Total shareholders' equity £'000
Balance at 1 April 2013	522	(128)	198	1,331	11,234	(41)	13,116
Total comprehensive expense for the period	-	-	-	-	(701)	-	(701)
Dividends paid in period	-	-	-	-	(540)	-	(540)
Shares issued in consideration of acquisitions	18	-	-	1,079	-	-	1,097
Shares transacted through Employee Benefit Trust	-	128	-	-	(458)	-	(330)
Share based payment charge	-	-	-	-	330	-	330
Balance as at 30 September 2013	540	-	198	2,410	9,865	(41)	12,972
Balance as at 1 October 2013	540	-	198	2,410	9,865	(41)	12,972
Total comprehensive income for the period	-	-	-	-	999	-	999
Shares issued under the share option schemes	-	-	-	1	-	-	1
Shares transacted through Employee Benefit Trust	-	(22)	-	-	(578)	-	(600)
Share based payment charge	-	-	-	-	269	-	269
Deferred tax on share options					642		642
Balance at 31 March 2014	540	(22)	198	2,411	11,197	(41)	14,283
Balance at 1 April 2014	540	(22)	198	2,411	11,197	(41)	14,283
Total comprehensive income for the period	-	-	-	-	119	-	119
Dividends paid in period	-	-	-	-	(695)	-	(695)
Shares issued in consideration of acquisitions	16	-	-	2,722	-	-	2,738
Share based payment charge	-	-	-	-	190	-	190
Deferred tax on share options					288	-	288
Balance at 30 September 2014	**556**	**(22)**	**198**	**5,133**	**11,099**	**(41)**	**16,923**

Consolidated statement of cash flows

for the 6 months ended 30 September 2014

	Six months ended 30 September 2014 £'000 (unaudited)	Six months ended 30 September 2013 £'000 (unaudited)	Year ended 31 March 2014 £'000 (audited)
Cash flows from operating activities			
Profit/(loss) after taxation	**119**	(701)	298
Interest income	**(10)**	(42)	(57)
Finance expense	**-**	1,158	1,214
Finance income	**(211)**	-	-
Taxation	**39**	-	117
Increase in deferred tax asset	**(49)**	(716)	(1,782)
Depreciation of property, plant and equipment	**336**	335	678
Amortisation of intangible assets	**862**	477	1,306
Share based payments	**190**	330	599
Operating profit before changes in working capital and provisions	**1,276**	841	2,373
Increase in inventories	**(45)**	(28)	(75)
Increase in trade and other receivables	**(734)**	(512)	(139)
(Decrease)/Increase in trade and other payables	**(1,975)**	380	2,657
Decrease in provisions	**(43)**	-	-
Cash (utilised) / generated from operations	**(1,521)**	681	4,816
Interest paid	**-**	-	-
Net cash (utilised) / generated from continuing operating activities	**(1,521)**	681	4,816
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	**-**	(3,700)	(3,599)
Purchase of property, plant and equipment	**(772)**	(73)	(355)
Purchase of intangible fixed assets	**(215)**	(254)	(603)
Increase in short term investments	**-**	2,000	3,000
Interest received	**10**	42	55
Net cash utilised in continuing investing activities	**(977)**	(1,985)	(1,502)
Cash flows from financing activities			
Dividends paid	**(695)**	(540)	(540)
Shares acquired by Employee Benefit Trust	**-**	(330)	(930)
Net cash utilised in continuing investing activities	**(695)**	(870)	(1,470)
(Decrease) / Increase in cash and cash equivalents	**(3,193)**	(2,174)	1,844
Cash and cash equivalents at the start of the period	**7,341**	5,497	5,497
Cash and cash equivalents at the end of the period	**4,148**	3,323	7,341

Notes to the Financial Statements for the six months ended 30 September 2014.

1. Amendment of Veritape Limited Deferred Consideration

On 18 August 2014 the Company reached an agreement to amend the deferred consideration payable in respect of the acquisition of Veritape Limited ("Veritape") originally announced on 11 June 2013.

Since the acquisition of Veritape, all employees have been relocated to the Hemel Hempstead office and the business has been largely integrated within the Eckoh organisation. Over time it has been increasingly difficult to separate the activities of Eckoh and Veritape and it has become apparent that a full integration of the businesses in a shorter timeframe would be beneficial.

Under the original share purchase agreement, the deferred consideration was based on the financial performance of Veritape resulting largely from the sales of their own product lines. It has been determined that it would be in the best interests of the Company to amend this agreement such that the performance element of the deferred consideration payable to the Veritape management is based on achieving goals which are aligned to the strategy of the Group as a whole.

Under the original agreement, deferred consideration of up to 16,618,785 ordinary shares of 0.25 pence in the capital of the Company ("Ordinary Shares") and cash of up to £1.7m could be paid to the former Veritape shareholders dependent on the achievement of certain profit before tax targets arising from the activity of Veritape Limited. As at 31 March 2014 it was estimated that £1.0m of cash and 9.9m shares would be issued in contingent consideration. Using the share price at 31 March 2014 of 39.125p, the total liability recognised on the Statement of Financial Position amounted to £4.9m.

Under the terms of the new agreement there is no cash element and the deferred consideration of up to a maximum of 10,739,507 Ordinary Shares (£4.3m, based on the average share price for the 20 dealing days preceding 4 August 2014) will become payable as follows:

- 6,443,704 Ordinary Shares will be issued with immediate effect to the Veritape shareholders ("First Tranche");

- Up to a further 1,073,951 Ordinary Shares can be earned dependent on the achievement of a group target of $3.4m of contracted revenues from activity in the USA in the year from 1 July 2014 to 30 June 2015; and

- Up to a further 3,221,852 Ordinary Shares can be earned dependent on the achievement of a group revenue target of $7.4m from activity in the USA in the year from 1 July 2015 to 30 June 2016.

The shares being issued under the First Tranche will be subject to lock-in periods, with the two main beneficiaries of the deferred consideration, the two founder Directors of Veritape, being subject to lock-in for a period of two years and the other beneficiaries being subject to a lock-in until September 2015.

It is estimated that the full contingent consideration of 4,295,803 Ordinary Shares will be issued. Using the share price as at 30 September 2014 of 45.25p, the value of the contingent consideration as at 30 September 2014 is £1.9m. The net impact of the reduction in contingent consideration offset by the increase in share price has resulted in a credit of £0.2m to Finance Income in the period.