19 November 2013

Eckoh plc

Unaudited interim results for the six months ended 30 September 2013

Significant contract momentum continues to underpin profit growth

Eckoh plc ("Eckoh" or "the Company"), the UK's leading provider of multi-channel customer service and secure payment solutions, announces its unaudited results for the six months to 30 September 2013.

Financial Highlights:

- Revenue increased by 24% from £5.1m to £6.3m
- Adjusted* operating profit increased by 57% from £0.5m to £0.7m
- Operating loss of £0.3m (H1 FY12: £0.4m profit) after inclusion of acquisition and share option related costs
- Adjusted* EBITDA increased by 29% from £0.9m to £1.2m
- Cash and short term investments balance remains strong at £4.3m (30 September 2012: £6.7m) following outflow of £3.7m from acquisition of Veritape and £0.5m dividend
- Cash generated from operations increased by 86% from £0.4m to £0.7m

Operational Highlights:

- Strong first period of trading performance from Veritape Limited ("Veritape")
  - Integration on track with cross selling new business initiatives already underway
- Partnership agreement with Capita Customer Management delivered a five year contract to provide services to a UK distribution business
- Secured £1.4m contract over 5 years with leading financial services provider
- Dedicated R&D team established and already generating traction with clients
- Strong contract renewal momentum during the period
  - Contracts renewed with a global financial services provider, Garden Centre Group, Gatwick Airports, IPSOS MORI, BAA, Barclays Bank & a Government Agency

Current Trading:

- Agreed 'landmark' 10 year contract with a minimum value of £11m to provide a suite of self service solutions to a Tier 1 telecoms operator
- A pilot for Veritape's 'CallGuard' solution secured with Eckoh channel partner
- First Eckoh/Veritape combined payment solution sold to South West Water
- Contracts gains secured have led to an increase in market profit expectations for the next financial year

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

Nik Philpot, Chief Executive Officer, commented today:

"We are delighted to be announcing such a strong set of results which highlights the excellent progress made by the Group from both a financial and operational perspective. Our targeted sales efforts to secure larger, longer-term contracts are already delivering impressive results with an excellent sales pipeline and three contract wins with a combined value of £15m.

The integration of our newly acquired business Veritape is going extremely well and the business rationale for being part of the Eckoh group is yielding returns at every level. We expect the substantial progress and growth achieved by the Group in the first half of this year to continue throughout the remainder of the current financial year.

As a board, we continue to evaluate a variety of wider strategic options designed to accelerate the growth further and we look to the future with continuing confidence."

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Notes to Editors:

Eckoh

Eckoh plc (AIM: ECK) is the UK's leading provider of multi-channel customer service and secure payment solutions. We are a PCI DSS Level One accredited Service Provider, currently processing over £300 million in card payments annually.

Eckoh's 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. Eckoh is the largest provider of such hosted services in the UK.

Our secure and resilient infrastructure has the scalability to handle up to 6,000 calls simultaneously, which means that calls will always be answered no matter how unpredictable the circumstances.

Operational Review

Introduction

We are pleased to report a very strong period of growth for the business, reflecting the positive impact of a number of strategic steps taken in previous periods which are now reflected in the financial performance of the business.

We have delivered a successful first 3 months of trading from Veritape, who were acquired in June, during which they have secured both new customers and extended the scope of their contract with Connextions, their largest customer based in the US. Significantly, Eckoh has also been able to introduce the Veritape product CallGuard into one of its key channel partners and a paid for pilot will be commencing shortly. If successful, it is expected to lead to a major implementation across a number of customers.

During the period we secured a number of significant new contracts, including our largest ever to date in addition to maintaining a 100% renewal rate on all contracts expiring during the period. The development of our sales channels continues to drive additional sales growth and our agreement with Capita Customer Management ("CCM") promises to be the most significant partnership in terms of value and number of customers over the course of the next year.

Operational update

We have been consistent in our strategic approach over recent years and can report positively on each aspect of the strategy.

- *Maximise our Level One Payment Card Industry Data Security Standards ("PCI DSS") Status*

Strong demand from within the payment sector continues to drive the highest volume of sales opportunities for Eckoh. The contracts secured in the previous financial year are now generating monthly transactional revenues and have driven much of the growth in organic revenue seen in the period.

Organisations that take payments over the telephone or other channels continue to be under increasing pressure to ensure that these transactions are dealt with in a secure manner. We are seeing growing evidence of the banking industry increasing their charges to companies who are not compliant with PCI DSS. This growing trend will continue to play to our advantage with Eckoh well placed to assist by offering organisations a comprehensive suite of products to deal with the complex challenges being faced when attempting to comply with these standards. In addition Version 3 of the PCI standard, which has just been announced, tightens up the regulations for companies selling over the Internet, which will provide additional opportunities for Eckoh's services.

The acquisition of Veritape in June has provided an important addition to our suite of payment products. Veritape's CallGuard product offers a hardware solution that can work with a minimum of integration work alongside any Contact Centre IT infrastructure. The simplicity of CallGuard has enabled a large proportion of their revenue to come from outside of the UK. The international sales momentum experienced by Veritape has provided further confirmation that the UK is the global leader in providing PCI compliant secure card payment solutions. We believe that the profile of PCI DSS accreditation and the solutions available to assist organisations to comply with the standard are very much in the formative stages in regions outside of the UK. This suggests that an exciting opportunity exists for Eckoh's suite of payment solutions to be marketed on an international basis and we are actively seeking to establish partner relationships in international markets to help drive this strategy forward.

- *Expansion of Indirect Sales Channels and Investment in Direct Sales*

Since our preliminary results were released in June 2013 we have announced a number of significant new contracts that were generated from the development of Channel Partnerships. Collectively, these contracts have an expected value over the contract terms of over £15m. It is unfortunate that a significant proportion of our announcements have to be made on an anonymous basis but the majority of our agreements prohibited the full disclosure of our relationship. However, this is an acceptable aspect of contracting with such high profile organisations but the anonymous nature of these announcements should not detract from the significant nature of our working relationship.

We were delighted to announce earlier in the month that we had secured our largest, and longest ever contract with a ten year agreement to provide a suite of self-service applications to a tier 1 UK telecoms operator. This contract will generate a minimum of £11m over the ten year period and the length of the term highlights the confidence in which Eckoh is regarded. This contract was secured in partnership with one of our Channel Partners and demonstrates the validity of the strategic initiative to invest time and effort into developing these partnerships.

We also announced in July that a five year contract with a major financial services provider with a minimum value of £1.4m had been secured. This was also secured through a Channel Partner. It has been noticeable that contracts being secured of late have been for a minimum of at least five years, demonstrating the importance to the client of securing Eckoh's services for a prolonged period of time.

A key development in recent months has been the introduction of CCM as an Indirect Sales Channel. The first contract delivered through this relationship, which was announced in August, was a five year agreement to provide tracking and redelivery solutions to a UK distribution business. The service has performed significantly better than forecast since it went live and is anticipated to handle several times normal run rate in the period up to Christmas. We are excited by the quality and value of opportunities that exist within the client base and sales pipeline of CCM. As a result, we have taken the decision to recruit additional staff to add to the number of employees who are already dedicated to working with CCM as a partner.

- *Expanding the Range of Multi-channel Services & Innovate Through New Product Development*

In order to ensure that Eckoh retains a market leading position, it is imperative that we continue to invest in Research & Development. Historically our typical contract was 3 years in length but more recently we have seen contracts extend to between five and ten years. To commit for such lengths of time the client needs to be confident that Eckoh's roadmap and proposition will continue to embrace and incorporate new technology to always deliver a best of breed solution. Then once a client is secured over the course of their contract we need to be able to consistently demonstrate new capabilities and innovations that we can offer to enhance their solutions. These enhancements are typically showcased to clients at quarterly service reviews and play a large part in enabling us to retain clients and upsell additional services.

Whilst we have been successful in the past in largely funding our extensive R&D activity through paid for client contracts, it had become apparent that for us to maintain the necessary level of innovation we would need to invest in a more traditional manner. We recently made the decision to set up a dedicated R&D team and to date we have employed three highly skilled individuals who are dedicated to R&D activity. Much of their early focus will be around enhancing and developing our multi-channel proposition to reflect our belief that future customer service needs to be delivered more seamlessly across differing devices and communication channels. Although this team has only been in place for a short while, we are pleased that we have already identified an existing client who will be utilising this new proposition in 2014.

Contract renewals

The most significant contract renewal in the period was the extension of a contract with one of our largest clients, a global financial services provider, to May 2015. We have now been working with this client since 2008 and are confident that we will be able to extend our relationship far beyond this contract renewal.

It is a critical part of our strategy that we retain existing clients and we pride ourselves on the length of time that we work with our clients. This is demonstrated by the following clients who have contracted for additional periods since June, and they represent all contracts that expired during the period:

- Garden Centre Group (originally contracted April 2003)
- Barclays Bank (originally contracted September 2004)
- Government department (originally contracted 2004)
- BAA (originally contracted November 2006)
- Government agency (originally contracted December 2009)
- Gatwick Airports Limited (originally contracted May 2010)
- IPSOS MORI (originally contracted September 2011)
- Welsh Water (originally contracted November 2011)

Acquisition of Veritape Limited ("Veritape")
The first three months of trading for Veritape within the Eckoh group have been very strong with revenue of £0.6m being generated in the period. As disclosed with the announcement of the acquisition, contingent consideration of cash up to the value of £1.7m and 16.7m ordinary shares of Eckoh plc could be earned dependent on the achievement of profit before tax targets. To earn the entire deferred consideration, profit before tax of £3.6m must be achieved over the first 26 month period following 1 July 2013. Early trading for Veritape has given us confidence that these targets can be substantially achieved and a provision for the majority of the contingent consideration payment to be paid has been made.

We are working on a number of cross selling opportunities into the respective client bases but are also seeing a number of pipeline opportunities where a combination of Eckoh & Veritape products is proving attractive to the prospective client. We have successfully concluded our first such sale to South West Water, an existing customer, where we have combined EckohPROTECT and CallGuard to deliver a secure payment solution into their contact centre, this is an upsell to their existing contract which has a further 2 years to run.

Veritape's proposition has been rolled out to Eckoh's channel partners where it has been very warmly received and as mentioned we are particularly excited about one partner who have commissioned a pilot that starts imminently which if successful could see an extensive order for CallGuard.

One of key elements of Veritape's proposition is the ease of implementation, which has enabled a large proportion of their sales to be made outside of the UK and with a shorter sales cycle than is typically seen with Eckoh payment sales. Access to the greater marketing resources and profile of Eckoh is undoubtedly going to allow Veritape to accelerate growth and become an increasingly important part of the Group.

Current trading and outlook
Eckoh has traditionally been a second half weighted business as a number of clients see higher levels of activity arising during the winter months and newly secured clients begin to generate recurring revenues. This historic trend will be accentuated in the current year with a full six months of Veritape activity, as opposed to the three-month contribution seen in the first half of the year.

Our sales pipeline remains extremely active and we remain encouraged by the size of new business opportunities being brought by our Channel Partners.

The Board therefore remains confident that the growth seen in recent periods looks set to continue for the foreseeable future and a very real prospect of this growth accelerating faster than currently anticipated.

Financial Review

Revenue

The first half of the financial year saw organic revenue growth within the business of 12% from £5.1m to £5.7m. 93% of this revenue was represented by contracted recurring revenues demonstrating the impact of a large number of new clients secured in the previous financial year and contributing fully to the new financial year.

Revenue from Veritape of £0.6m contributed to overall revenue growth of 24% from £5.1m to £6.3m. As Veritape only contributed for the three month period from July to September, we would obviously expect a more significant contribution to the second half of the year.

Profitability Measures

The company continues to benefit from excellent operational gearing. Despite a 24% increase in revenue and the addition of the Veritape cost base, administrative expenses (excluding amortisation of acquired intangible assets, acquisition and share option expenses) have only increased by 9% from £3.4m to £3.7m. This has enabled much of the increased margin generated in the business to flow to the profitability of the company.

Adjusting for expenses relating to share option schemes, acquisition costs and amortisation of acquired intangible assets, operating profit has increased from £0.5m to £0.7m, an increase of 57%. Similarly, adjusted EBITDA (calculated in the table below) has increased from £0.9m to £1.2m, an increase of 29%.

	6 months ended 30 Sept 2013 £'000	6 months ended 30 Sept 2012 £'000	Year ended 31 March 2013 £'000
(Loss)/profit before tax	**(1,417)**	**430**	**1,188**
Amortisation of intangible assets	**477**	152	276
Depreciation	**335**	321	656
Expenses relating to share option schemes	**556**	60	375
Interest receivable	**(43)**	**(26)**	(74)
Finance expense (see note 1)	**1,158**	**-**	**-**
Acquisition costs	**146**	**-**	**-**
Adjusted EBITDA	**1,212**	**937**	**2,421**

Statement of financial position

Despite the cash outflow of £3.7m arising from the acquisition of Veritape and £0.5m from the dividend payment, cash and short term investments remain strong at £4.3m (31/3/13: £8.5m). We would expect the cash balance to grow strongly in the second half of the financial year in line with cash generation from profit expectations.

A move into increasing profitability has enabled us to recognise an additional portion of a deferred tax asset, resulting in the asset increasing to £2.8m. Using the tax rate of 20%, additional taxable profits of £13.8m need to be generated before cash tax payments will be made from the Eckoh trading entity.

Statement of comprehensive income
for the 6 months ended 30 September 2013

	Six months ended 30 September 2013 £'000 (unaudited)	Six months ended 30 September 2012 £'000 (unaudited)	Year ended 31 March 2013 £'000 (audited)
Continuing operations			
Revenue	**6,297**	5,061	10,985
Cost of sales	**(1,850)**	(1,177)	(2,691)
Gross profit	**4,447**	3,883	8,294
Administrative expenses	**(3,717)**	(3,419)	(6,805)
Adjusted Operating Profit	**730**	464	1,489
Amortisation of acquired intangible assets	**(330)**	-	-
Expenses relating to share option schemes	**(556)**	(60)	(375)
Acquisition costs	**(146)**	-	-
(Loss)/profit from operating activities	**(302)**	404	1,114
Finance expense (note 1)	**(1,158)**	-	-
Finance income	**43**	26	74
(Loss)/Profit before taxation	**(1,417)**	430	1,188
Taxation	**716**	120	720
Total comprehensive (expense) / income for the period	**(701)**	550	1,908

Profit / (Loss) per share expressed in pence			
Basic	**(0.33)**	0.26	0.93
Diluted	**(0.32)**	0.25	0.89

Consolidated statement of financial position
as at 30 September 2013

	30 September 2013 £'000 (unaudited)	30 September 2012 £'000 (unaudited)	31 March 2013 £'000 (audited)
Assets			
Non-current assets			
Intangible assets	**10,681**	300	311
Property, plant and equipment	**922**	1,410	1,184
Deferred tax asset	**2,756**	1,440	2,040
	14,359	3,150	3,535
Current assets			
Inventories	**57**	19	-
Trade and other receivables	**3,972**	3,445	3,331
Short-term investments	**1,000**	3,000	3,000
Cash and cash equivalents	**3,323**	3,694	5,497
	8,352	10,158	11,828
Total assets	**22,711**	13,308	15,363
Liabilities			
Current liabilities			
Trade and other payables	**(3,537)**	(1,551)	(2,204)
	(3,537)	(1,551)	(2,204)
Non-current liabilities			
Deferred consideration	**(4,838)**	-	-
Deferred tax on acquired assets	**(1,321)**	-	-
Provisions	**(43)**	(43)	(43)
	(6,202)	(43)	(43)
Net assets	**12,972**	11,714	13,116
Shareholders' equity			
Share capital	**540**	522	522
ESOP Reserve	**-**	(128)	-
Capital redemption reserve	**198**	198	198
Share premium	**2,410**	1,321	1,331
Currency reserve	**(41)**	(41)	(41)
Retained earnings	**9,865**	9,714	11,234
Total shareholders' equity	**12,972**	11,714	13,116

Consolidated interim statement of changes in equity

as at 30 September 2013
(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 2012	499	-	198	695	9,511	(41)	10,862
Total comprehensive income for the period	-	-	-	-	550	-	550
Dividends paid in period	-	-	-	-	(407)	-	(407)
Shares issued under the share option schemes	23	-	-	626	-	-	649
Share based payment charge	-	-	-	-	60	-	60
Balance as at 30 September 2012	522	-	198	1,321	9,714	(41)	11,714
Balance as at 1 October 2012	522	-	198	1,321	9,714	(41)	11,714
Total comprehensive income for the period	-	-	-	-	1,358	-	1,358
Dividends paid in period	-	-	-	-	-	-	-
Shares issued under the share option schemes	-	-	-	10	-	-	10
Shares transacted through Employee Benefit Trust	-	(128)	-	-	(38)	-	(166)
Share based payment charge	-	-	-	-	200	-	200
Balance at 31 March 2013	522	(128)	198	1,331	11,234	(41)	13,116
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 at 30 September 2013	**540**	**-**	**198**	**2,410**	**9,865**	**(41)**	**12,972**

Consolidated statement of cash flows

for the 6 months ended 30 September 2013

	Six months ended 30 September 2013 £'000 (unaudited)	Six months ended 30 September 2012 £'000 (unaudited)	Year ended 31 March 2013 £'000 (audited)
Cash flows from operating activities			
(Loss)/profit after taxation	**(701)**	550	1,908
Interest income	**(42)**	(26)	(74)
Finance expense	**1,158**	-	-
Increase in deferred tax asset	**(716)**	(120)	(720)
Depreciation of property, plant and equipment	**335**	321	656
Amortisation of intangible assets	**477**	152	276
Share based payments	**330**	60	260
Operating profit before changes in working capital and provisions	**841**	937	2,306
(Increase) / decrease in inventories	**(28)**	-	19
(Increase) / decrease in trade and other receivables	**(512)**	138	252
Increase / (decrease) in trade and other payables	**380**	(710)	(57)
Increase in provisions	**-**	-	-
Cash generated from operations	**681**	365	2,520
Interest paid	**-**	-	-
Net cash generated from continuing operating activities	**681**	365	2,520
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	**(3,700)**	-	-
Purchase of property, plant and equipment	**(73)**	(243)	(352)
Purchase of intangible fixed assets	**(254)**	(66)	(201)
Increase in short term investments	**2,000**	(2,000)	(2,000)
Interest received	**42**	26	74
Net cash utilised in continuing investing activities	**(1,985)**	(2,283)	(2,479)
Cash flows from financing activities			
Dividends paid	**(540)**	(407)	(407)
Issue of Shares	**-**	649	659
Shares acquired by Employee Benefit Trust	**(330)**	-	(166)
Net cash generated from / (utilised in) continuing investing activities	**(870)**	242	86
Decrease in cash and cash equivalents	**(2,174)**	(1,676)	127
Cash and cash equivalents at the start of the period	**5,497**	5,370	5,370
Cash and cash equivalents at the end of the period	**3,323**	3,694	5,497

Notes to the Financial Statements for the six months ended 30 September 2013

1. Acquisition of Veritape Limited

On 10 June 2013, the Company acquired the entire issued share capital of Veritape Limited ("Veritape"), a provider of Payment Card Industry Data Security Standards ("PCI DSS") compliant call recording software and on premise secure payment solutions. The initial consideration comprised £5.2m of cash funded by existing cash from the combined entity and £1.1m payable in ordinary shares of Eckoh plc. This has resulted in an increase in share capital and share premium of £1.1m during the period. Additional deferred consideration of up to £1.7m of cash and up to 16.7m ordinary shares of Eckoh plc can be earned dependent on the achievement of profit before tax targets. To earn the entire deferred consideration, profit before tax of £3.6m must be achieved over the first 26 month period following 1 July 2013.

The fair value calculations of contingent consideration are based on forecast profits of Veritape over the 26 month assessment period and, at the date of acquisition, it was estimated having performed a weighted probability exercise that £1.5m of cash and 14.3m shares will be issued in deferred consideration. Using the share price at the date of acquisition of 15.4825p, the fair value of the equity element of the deferred consideration was valued at £2.2m.

However, as at 30 September 2013, the share price of Eckoh plc was 23.62p and the fair value of the equity element of the deferred consideration as at that date was therefore considered to be £3.4m. The increase in fair value of the shares from the date of acquisition to 30 September 2013 has resulted in a finance expense of £1.2m being charged to the income statement in the period.

The Company incurred acquisition-related costs of £0.1m relating to external legal fees, due diligence and valuation fees, which have been included in Administrative expenses in the Group's consolidated statement of comprehensive income.

Analysis of assets and liabilities acquired:

£000's	Book value	Provisional fair value adjustments	Fair value on acquisition
Intangible assets	-	6,610	6,610
Trade and other receivables	129	-	129
Inventories	29	-	29
Cash and cash equivalents	1,480	-	1,480
Trade and other payables	(342)	-	(342)
Deferred tax liability	-	(1,321)	(1,321)
Net assets acquired	**1,296**	**5,289**	**6,585**
Goodwill			3,373
Consideration paid			**9,958**
Satisfied by			
Cash			5,180
Shares			1,098
Cash – contingent consideration			1,472
Shares – contingent consideration			2,208
Total purchase consideration			**9,958**
Net cash flow on acquisition			
Cash consideration paid			5,180
Cash acquired			(1,480)
Cash flow on acquisition			**3,700**

Goodwill arising from the acquisition is attributable to the expected synergistic benefits expected from combining the operations of Veritape and Eckoh, including the comprehensive suite of products available to enable organisation to comply with PCI DSS, as well as the workforce acquired.

On acquisition of Veritape, all assets were fair valued and appropriate intangible assets recognised following the principles of IFRS3. Management identified three material intangible assets:

I. CallGuard: CallGuard is the core proposition of Veritape allowing Contact Centres to remove credit cardholder data from their call recording systems and avoiding Contact Centre agents from being able to gain access to this data. Revenue growth has been rapid with management believing the growth will continue and that the product will have a minimum useful economic life of at least five years. The value of this intangible asset at acquisition is £6.41m using the income approach.
II. Call Recording Software: Although no growth is forecast in revenue from the Call Recording Software, management believe that current levels of revenue will be maintained as a requirement for Contact Centres to record calls will remain for the foreseeable future. Management believe that the Call Recording Software has a minimum useful economic life of at least five years. The value of this intangible asset at acquisition is £0.17m using the income approach.
III. OneProx: OneProx is a new product which enables organisations to prevent credit cardholder data from entering their IT infrastructure. A patent has been filed for the product but no revenue had been generated from the product at the date of acquisition. The value of this intangible asset at acquisition is £0.03m using the income approach.

The acquired business contributed revenues of £0.6m and net profit of £0.4m to the Group for the period 10 June 2013 to 30 September. If the acquisition of Veritape had occurred on 1 April 2013, management estimates that consolidated revenues would have been £0.8m, and consolidated profit for the year would have been £0.4m. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on 1 April 2013.