



Interim Results

For the six months ended 30 September 2011

8 November 2011

Eckoh plc

Unaudited interim results for the six months ended 30 September 2011

Eckoh plc (“Eckoh” or “the Company”), the UK’s leading developer of speech recognition solutions for customer contact centres, announces its unaudited results for the six months to 30 September 2011.

Financial Highlights:

- Revenue up 19% to £5.0m (H1 2010/11: £4.2m); over 90% of revenue is of a recurring nature from contracted clients
- Gross profit from continuing operations up 22% to £3.7m (H1 2010/11: £3.1m); gross margin increased to 75% (H1 2010/11: 73%)
- Operating profit up 215% to £0.4m (H1 2010/11: £0.1m)
- Profit before tax of £0.4m (H1 2010/11: loss of £1.1m)
- EBITDA up 84% to £0.8m (H1 2010/11: £0.4m)
- Deferred tax asset of £2.1m recognised
- Strong debt free financial position with a cash and short term investment balance up to £5.9m (31/3/11: £5.7m)
- Maiden dividend (0.1p per share) of progressive dividend policy paid on 4th November 2011.

Operational Highlights:

- New contract wins with a major Government transport organisation and the Legal Services Commission
- Strong demand for Eckoh productised services with contracts secured with Orbital Marketing Services Group, Ipsos MORI and Tenpin Limited
- Renewed strategic relationship with BT Global Services for a further three year period
- Contract renewals include Addison Lee and a leading UK logistics organisation

Current Trading:

- Successfully passed first annual audit of compliance with the Payment Card Industry Data Security Standards (PCI DSS)
- New Indirect Sales Channel relationship agreed with Servebase
- Provision of Mobile Web payments solution to Utilita
- Development of new products EckohPROTECT and EckohSURVEY
- Growth in smartphone applications development team

Nik Philpot, Chief Executive Officer, commented today:

“We are delighted with our continued positive progress, which is clearly demonstrated by a healthy mixture of new business gains, contract renewals and a steady flow of value added service deployments. To support our strong base as a focused pure-play speech technology business we are continuing to invest in adding to our sales function, growing our mobile application development team and expanding our contact centre capacity. Despite the challenging market conditions our sales pipeline is encouraging and our growth prospects remain strong.”

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Introduction

At the end of the financial year we highlighted the restructuring of our business had been completed, allowing Eckoh to focus on delivering pure play speech recognition solutions. We identified a number of strategic goals that we believed would help to support our growth over the coming period and they are as follows:

- Expand our indirect sales channels to broaden our customer reach
- Continue to innovate through new product development to maintain our market leading position
- Offer alternative ways of providing our solutions to our clients (e.g. hosted, 'bunkered', premised based), to increase sales from financial services and public sector
- Increase incremental sales from our existing customer base by expanding the range of multi-channel services
- Maximise our level 1 PCI DSS status and the EckohPAY product

We will highlight the progress made on a number of these strategic goals below.

Operational Review

Eckoh provides customer service solutions using speech recognition, and complementary services on the web and mobile, and is the largest provider of such hosted services in the UK.

Our target market is large private and public organisations that use contact centre services; whether in-house or outsourced.

Eckoh's sophisticated technology enables enquiries, transactions and payments to be processed without the need for the consumer to speak with a contact centre agent. This significantly reduces the client's operational costs, whilst freeing up the agents to deal with more complex and high-value enquiries.

Our contracts have historically been won either directly or through our indirect sales relationship with BT. We recently announced the renewal of our relationship with BT for a further three years and we would expect to continue to win new business through this channel. We have also been looking to expand our sales channels outside of BT and announced earlier in the year a teaming agreement with a global management consultancy. We are pleased to be able to announce today a new reseller relationship with Servebase, a payment processing provider established for over twenty years, who are a market leader in providing solutions for a wide range of business industries globally. Eckoh will be providing Servebase with the PCI DSS compliant telephone payments solution EckohPAY to complement their existing multi-channel payments offering.

To support our new additional indirect sales partners and to properly service the volume of sales opportunities we have invested in our sales and marketing function. We have also recruited additional mobile application developers to enable us to satisfy the growing demand for smartphone and mobile web applications that we expect to increase further in 2012.

As an example we have recently reached agreement with Utilita to extend the payment solutions we already provide to them by supplying a mobile web solution. Utilita who are licensed to supply gas and electricity and specialise in the provision of smart meters, already have the EckohPAY web payments and SMS payments service. This new mobile web service will deliver a greater customer experience for people wishing to top up their meters using their mobile devices. The service follows the progressive enhancement methodology, so low resolution phones can view well-presented content but more advanced phones will receive the more graphically rich content that would be expected.

A key feature of Eckoh's payment proposition is our highest level of accreditation of compliance with the Payment Card Industry Data Security Standards ("PCI DSS"). The PCI DSS is the payment card industry requirement for all organisations that store, process or transmit credit or debit cardholder data.

Eckoh first achieved PCI DSS accreditation status in October 2010 following a three year process. On the 7th November 2011 we announced that we had successfully maintained our status as a PCI DSS Level One Service Provider by continuing to meet the comprehensive set of security requirements designed to protect cardholder information. By maintaining compliance Eckoh reinforces its ability to provide secure services to its clients and that cardholder information is protected as payments are processed in a fully compliant manner.

The EckohPAY product that was developed to target the demand for PCI DSS compliant card processing solutions continues to account for a significant proportion of our sales enquiries. We have just released a new version of EckohPAY that allows us to deploy the solution even faster and to provide a white label version of the service to indirect partners such as Servebase to resell.

In response to customer demand we are also developing a new product called EckohPROTECT, which provides the same level of security and compliance with PCI DSS as EckohPAY but operates in a somewhat different way. With EckohPAY the contact centre agent transfers the caller to the Eckoh solution to allow them to complete their card payment anonymously. With EckohPROTECT the caller enters their information securely into the Eckoh system whilst the contact centre agent remains on the call; this enables them to assist in the event that the caller experiences any difficulty. Traditionally this type of card payment solution has only been available as a customer premised solution, so Eckoh's solution alongside EckohPAY will provide clients with a choice of secure payment options in a hosted environment.

Contract wins and renewals

In August we announced that a leading UK logistics organisation had signed a combined contract renewal for the provision of automated tracking and redelivery services. The automated customer information line that has been provided by Eckoh since April 2006 allows customers to track parcels, change delivery address and specify a delivery date. Since April 2007 Eckoh have also provided an automated track and trace service utilising speech recognition technology. To date the services have handled over 27 million minutes of call traffic since they launched.

In September we announced that we would be extending our existing relationship with the Ministry of Justice ("MoJ") to now provide card payment services to the Legal Services Commission ("LSC"). The LSC is a non-departmental public body that works in partnership with solicitors and not-for-profit organisations to help over two million people each year access legal advice, information and help. The LSC currently receives £200 million in payments annually from clients and third parties. Eckoh will be providing the LSC with an automated telephone payment service in both English and Welsh using Eckoh's payment product EckohPAY, in order to provide a PCI DSS compliant payment service and reduce the cost to LSC of processing these transactions.

Another new contract for the provision of EckohPAY was announced in August this time with Orbital Marketing Services Group centre division, Orbital Response ("Orbital"). Orbital is one of the UK's largest specialist response and fulfilment providers, offering outsourced services on behalf of its clients including mail order/home shopping sales, donation processing for charities and membership management schemes; either by telephone, online, email or post. EckohPAY will be deployed to allow callers to make card payments conveniently and securely over the phone and to increase the efficiency of Orbital's UK based contact centre agents by freeing them up to service more complex calls.

EckohPAY is part of the Eckoh product range that allows services to be deployed much faster and with much less technical involvement than bespoke developments. This enables smaller size contracts to still be financially worthwhile and provides the opportunity for Eckoh to grow the size of the account over time by upselling incremental services. Two recent examples of this are Tenpin and Ipsos MORI.

Eckoh recently signed a three year contract with Tenpin Limited for the provision of the speech-enabled locator product, EckohLOCATE. Tenpin is the second largest bowling operation in the UK with 38 locations. Based on Eckoh's speech recognition technology, Tenpin customers will call a national number, state the name of a town and EckohLOCATE will identify the nearest Tenpin centre and provide the caller with the option to connect directly through to a bookings and enquiries service. The service is expected to launch before Christmas.

The agreement with Ipsos MORI is to provide them with our latest product EckohSURVEY, which enables clients to obtain feedback using Eckoh's automated telephone-based survey solution. EckohSURVEY can be used for gauging consumer opinion or monitoring customer satisfaction levels. Ipsos MORI is one of the largest and best known research companies in the UK and a key part of the Ipsos Group, a leading global research company. The contract delivers them with a fully automated service that incorporates the hosting of responses and feedback for opinion collection.

In November 2010 we announced a two year agreement to undertake a pilot project to provide a telephone booking service to Europe's largest minicab service Addison Lee. The service was to allow their cash customers to book a minicab using Eckoh's speech technology without having to speak to a contact centre agent. Last month we announced that we had entered into a new exclusive contract with Addison Lee until 2014 to provide them with a range of automated speech recognition services. The first of these will be a booking service to allow their 28,000 account customer's to book journey's using the Eckoh automated solution and we expect other services to launch in 2012.

Financial Review

Revenue and Margin

Revenue and margin growth seen in recent years has continued into the first half of the 2011/12 financial year with revenue increasing by 19% to £5.0m (H1 2010/11: £4.2m) and margin increasing by 22% to £3.7m (H1 2010/11: £3.1m). The gross margin of revenue continues to increase and is now at 75% (H1 2010/11: 73%).

The revenue and margin growth seen in the first half of the financial year has come from client contracts secured in the prior financial year such as Addison Lee and Lead the Good Life. The broadening of our multiple channel offering has also led to a successful campaign of selling additional services to our existing client base. As we already have a relationship with these customers, the sales cycle is significantly shorter than we would ordinarily see and leads to a much quicker recognition of revenue.

Profitability Measures

Administrative expenses have increased by 14% to £3.4m (H1 2010/11: £3.0m) in the period. This increase was largely driven by an increase in the size of the Call Centre following the acquisition of Lead the Good Life as a client. However, some investments in headcount have been made in other areas such as Sales & Marketing as well as Product Delivery to position Eckoh to take advantage of the market opportunity and to accelerate growth in revenue in the long term. In recent weeks, we have also agreed a lease to increase office space by 50% to allow us to cope with ongoing anticipated growth.

The operational gearing inherent in the business has allowed this modest increase in administrative expenses to be absorbed whilst significantly increasing the profitability being experienced. The table below outlines the progress made in profitability;

	6 months ended 30 Sept 2011 £'000	6 months ended 30 Sept 2010 £'000	Year ended 31 March 2011 £'000
Operating profit	381	121	627
Amortisation of intangible assets	177	99	290
Depreciation	249	218	446
EBITDA	807	438	1,363

Statement of financial position

Cash generated from operations in the period was £0.3m (H1 2010/11: utilisation of £0.2m), leading to cash increasing from £5.7m at 31 March 2011 to £5.9m at 30 September 2011. Cash at 30 September 2010 was £5.0m. This has been achieved despite net receivables increasing from £0.8m at 31 March 2011 to £1.3m at 30 September 2011.

Dividend

On 4th November 2011, a maiden dividend of 0.1p per share was paid to shareholders totaling £0.2m. The Board have committed to a progressive dividend policy and will announce a dividend relating to the 2011/12 financial year with the preliminary results.

Deferred tax asset

The ongoing growth of the business into increasing profitability has provided sufficient evidence that £2.1m of previously unprovided deferred tax assets will be recoverable and is therefore being recognised as an asset on the statement of financial position. The Group also has a further £4.0m of deferred tax assets which are not being recognised at this stage as profitability cannot be foreseen with sufficient certainty.

Current trading

In the full year results announcement made on June 6th 2011 we announced a feasibility project for a major Government transport organisation to provide a business and technology case for providing a natural language call steering service for all incoming calls to the organisation. This "how can we help you?" style solution allows the consumer to ask for assistance using a natural dialogue and across a broad spectrum of topics, and based upon their response the solution routes their call appropriately. This project identified that by using the EckohASSIST product the number of misrouted calls could be reduced by over 75%, which will save the organisation a minimum of £0.5m per annum.

Based on these results we were pleased to be able to confirm on October 12th 2011 that the organisation will be proceeding with the implementation of EckohASSIST and are targeting a launch of the service in Spring 2012. This marks a strategically important milestone for Eckoh as it will be the first deployment of the product in the UK, and will showcase the speech technology being utilised in a way that we would expect to become increasingly popular in the coming years.

With the addition of indirect channels such as Servebase we would expect to see the number of sales opportunities to increase. In overall terms the sales pipeline continues to be extremely strong although the macro economic uncertainty is undoubtedly having an impact on the speed with which decisions are being made.

The widespread promotion and use of mass market speech applications such as the SIRI speech recognition service built into the new Apple iPhone 4S and Google's Voice Search feature is undoubtedly enhancing the appetite of consumers to use speech enabled products and encouraging businesses to consider using speech technology themselves. We see this as a very positive trend in the market, and as the largest provider of hosted speech services in the UK this should benefit Eckoh, by accelerating the proliferation of speech services.

Outlook

The medium term outlook for the business continues to be in line with expectations and the board remains encouraged by the combination of new business momentum and contract renewals. With high levels of recurring revenue and a market leading position, we believe our business has never been in better shape and our commitment to investing in both people and technology will enable us to capitalise on the growing demand for sophisticated speech solutions.

Statement of comprehensive income

for the 6 months ended 30 September 2011

	Six months ended 30 September 2011 £'000 (unaudited)	Six months ended 30 September 2010 £'000 (unaudited)	Year ended 31 March 2011 £'000 (audited)
Continuing operations			
Revenue	4,972	4,188	9,003
Cost of sales	(1,233)	(1,116)	(2,340)
Gross profit	3,739	3,072	6,663
Administrative expenses	(3,358)	(2,951)	(6,036)
Profit / (loss) from operating activities	381	121	627
Finance expense	-	(1,226)	(1,225)
Finance income	17	113	121
Share of loss in associate	-	(23)	(23)
Impairment of investment in associate	-	(115)	(115)
(Loss)/profit before taxation	398	(1,130)	(615)
Taxation	2,061	228	316
(Loss)/profit for the period from continuing operations	2,459	(902)	(299)
Discontinued operations			
Post tax profit / (loss) for the period from discontinued operations	-	12	(67)
(Loss)/profit for the period	2,459	(890)	(232)
Other comprehensive income			
Exchange differences on translating foreign operations	-	14	(14)
Adjustment for change in fair value of available for sale equity instruments	-	(160)	(160)
Transferred to profit or loss on sale	-	160	160
Total comprehensive (expense) / income for the period	2,459	(876)	(218)
(Loss)/earnings per share expressed in pence per share			
Basic	1.23	(0.45)	(0.12)
Diluted	1.18	(0.45)	(0.12)
(Loss)/earnings per share from continuing operations expressed in pence per share			
Basic	1.23	(0.38)	(0.15)
Diluted	1.18	(0.38)	(0.15)

Consolidated statement of financial position

as at 30 September 2011

	30 September 2011 £'000 (unaudited)	30 September 2010 £'000 (unaudited)	31 March 2011 £'000 (audited)
Assets			
Non-current assets			
Intangible assets	495	687	607
Property, plant and equipment	1,167	1,056	1,348
Deferred tax asset	2,061	-	-
	3,723	1,743	1,955
Current assets			
Inventories	12	16	4
Trade and other receivables	2,669	2,536	3,097
Short-term investments	2,170	817	317
Cash and cash equivalents	3,737	4,194	5,370
	8,588	7,563	8,788
Total assets	12,311	9,306	10,743
Liabilities			
Current liabilities			
Trade and other payables	(1,378)	(1,565)	(2,319)
	(1,378)	(1,565)	(2,319)
Non-current liabilities			
Provisions	(48)	(40)	(43)
	(48)	(40)	(43)
Net assets	10,885	7,701	8,381
Shareholders' equity			
Share capital	499	499	499
Capital redemption reserve	198	198	198
Share premium	695	695	695
Currency reserve	(41)	(41)	(41)
Retained earnings	9,534	6,350	7,030
Total shareholders' equity	10,885	7,701	8,381

Consolidated interim statement of changes in equity

as at 30 September 2011

(unaudited)

	Share capital £'000	Capital redemption reserve £'000	Share premium £'000	Retained earnings £'000	Currency reserve £'000	Total shareholders equity £'000
Balance at 1 April 2010	499	198	695	7,199	(55)	8,536
Total comprehensive income / (expense) for the period	-	-	-	(890)	14	(876)
Share based payment charge	-	-	-	41	-	41
Balance as at 30 September 2010	499	198	695	6,350	(41)	7,701
Balance as at 1 October 2010	499	198	695	6,350	(41)	7,701
Total comprehensive income / (expense) for the period	-	-	-	658	-	658
Share based payment charge	-	-	-	22	-	22
Balance at 31 March 2011	499	198	695	7,030	(41)	8,381
Balance at 1 April 2011	499	198	695	7,030	(41)	8,381
Total comprehensive income / (expense) for the period	-	-	-	2,459	-	2,459
Share based payment charge	-	-	-	45	-	45
Balance at 30 September 2011	499	198	695	9,534	(41)	10,885

Consolidated statement of cashflows

for the 6 months ended 30 September 2011	Six months ended 30 September 2011 £'000 (unaudited)	Six months ended 30 September 2010 £'000 (unaudited)	Year ended 31 March 2011 £'000 (audited)
Cash flows from operating activities			
Profit/(loss) after taxation	2,459	(890)	(232)
Loss on disposal of business operations	-	-	(31)
Interest income	(17)	(113)	(121)
Finance expense	-	1,226	1,225
Share of loss in associate	-	-	23
Impairment of investment in associate	-	-	115
Increase in deferred tax asset	(2,061)	-	-
Depreciation of property, plant and equipment	249	218	446
Amortisation of intangible assets	177	99	290
Share based payments	45	41	63
Exchange differences	-	14	-
Operating profit before changes in working capital and provisions	852	595	1,778
(Increase)/decrease in inventories	(8)	(11)	1
Decrease in trade and other receivables	428	1,094	564
Decrease in trade and other payables	(941)	(1,590)	(836)
Increase/(decrease) in provisions	5	(280)	(277)
Cash generated / (utilised) in operations	336	(192)	1,230
Interest paid	-	-	-
Net cash generated / (utilised) in continuing operating activities	336	(192)	1,230
Cash flows from investing activities			
Purchase of property, plant and equipment	(68)	(86)	(635)
Purchase of intangible fixed assets	(65)	(187)	(298)
(Increase)/decrease in short term investments	(1,853)	1,004	1,504
Loans repaid by third parties	-	982	975
Disposal of available for sale equity instrument	-	500	500
Interest received	17	107	28
Net cash (utilised in)/generated from continuing investing activities	(1,969)	2,320	2,074
Cash flows from financing activities			
Capital element of finance lease rental payments	-	(1)	(1)
Net cash utilised in continuing investing activities	-	(1)	(1)
Decrease in cash and cash equivalents	(1,633)	2,127	3,303
Cash and cash equivalents at the start of the period	5,370	2,067	2,067
Cash and cash equivalents at the end of the period	3,737	4,194	5,370