20 November 2012

Eckoh plc

Unaudited interim results for the six months ended 30 September 2012

Eckoh plc ("Eckoh" or "the Company"), the UK's leading provider of speech recognition and associated payment solutions, announces its unaudited results for the six months to 30 September 2012.

Operational Highlights:

- Strategy continues to deliver strong new business momentum during the period
  - Contract win with Whitbread plc to provide payment services to Premier Inn
  - Two further three year contract wins within the water utility sector
- Accelerated market traction gained though recent sales partner agreements
  - Contract wins for payment services with Kiddicare and Chartered Institute of Management Accountants (CIMA)
  - New partnership with Serco delivers contract with central government organisation
- Contract renewals remain strong with Power NI, IPSOS MORI & Royal Mail secured
- EckohPROTECT launched in January 2012 has already delivered four significant contracts

Financial Highlights:

- Revenue up 2% to £5.1m (H1 2011/12: £5.0m); 91% (FY2011/12: 87%) of revenue is of a recurring nature from contracted clients
- Gross profit from continuing operations up 4% to £3.9m (H1 2011/12: £3.7m); gross margin increased to 77% (H1 2011/12: 75%)
- Operating profit up 6% to £0.4m (H1 2011/12: £0.4m)
- Profit before tax up 8% to £0.4m (H1 2011/12: £0.4m)
- EBITDA up 9% to £0.9m (H1 2011/12: £0.8m)
- Strong debt free financial position with a cash and short term investment balance up to £6.7m (31/3/12: £6.4m)
- Dividend of 0.2p per share of progressive dividend policy paid in September.

Current Trading:

- New three year contract with major financial services Company for both EckohPROTECT and EckohPAY
- Strong pipeline of new business driven predominantly by EckohPROTECT and EckohASSIST
- Five contracts won in the period will begin generating recurring revenue during the second half of the financial year
- Three year renewal with Vue Entertainment, largest client to be renewed this year

Nik Philpot, Chief Executive Officer, commented today:

"The year has started positively, underpinned by excellent traction in our payments products and significant new business impact from our channel partners. Our client base is expanding at record levels with most of these new contracts generating recurring revenue in the second half of the current year.

The prominence of payment solutions in our sales pipeline is enabling us to rapidly increase the size and diversity of our client base, providing further confidence in generating greater levels of revenue and profit growth. Therefore, the outlook for the business remains buoyant with current trading in-line with market expectations."

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Notes to Editors:

Eckoh

Eckoh is the UK's leading provider of speech recognition and associated payment solutions across voice, web and mobile channels.

Eckoh's sophisticated technology enables a broad range of customer service functions to be provided without the need for the consumer to speak with a contact centre agent and for payments to be made that are compliant with the Payment Card Industry Data Security Standards ('PCI DSS'). This significantly reduces the client's operational costs, whilst freeing up their contact centre agents to deal with more complex and high-value enquiries.

We are the largest provider of such hosted services in the UK and we have been a level 1 certified PCI DSS service provider since 2010.

Operational Review

Introduction

The strategy of the board has been to develop a pure play speech business that could deliver substantial market traction. The last six months trading demonstrates the success of that strategy with record levels of new business wins and demand for Eckoh solutions at an all-time high. This has been substantiated by an increase in new contract announcements in the period which will feed through strongly into our financial performance in the second half of the current financial year and future accounting periods.

Our strategic focus therefore remains unchanged:

- Continue to expand and strengthen our indirect sales channels whilst investing in our direct sales channel
- Continue to innovate through new product development to maintain our market leading position
- Increase incremental sales from our existing customer base by expanding the range of multi-channel services
- Maximise our level 1 Payment Card Industry Data Security Standards ("PCI DSS") status through our payment products EckohPROTECT and EckohPAY

Operational update

Eckoh's target market is large corporate and public organisations that use contact centre services; whether in-house or outsourced. Our contracts, which are generally three years in length, have historically been won either directly or through our indirect sales relationship with BT. Since October 2011 we have also been working with multiple sales partners resulting in significant new levels of new business momentum. During this relatively short period we have secured contracts working alongside Nuance, Azzurri Communications Ltd ("Azzurri"), Serco Limited ("Serco") and an unnamed global payment service provider.

We have also expanded our direct sales and marketing effort to ensure that the opportunities being presented to us are fully capitalised upon.

Eckoh has increased its client base from 38 contracted clients in September 2011 to 47 in September 2012. This strong growth has been achieved through a combination of broadening our sales partnerships beyond our long established relationship with BT and by developing our product offering to further meet specific needs in the market.

Product update

The vast majority of new business secured has been generated by an inherent market need for organisations to securely process card payments in a manner which is PCI DSS compliant. The enforcement of PCI DSS is increasing with financial institutions now insisting that organisations who take card payments take steps to become compliant or risk significant fines or having their payment facilities removed. We are also seeing growing pressure from the public for contact centres to provide methods of taking card payments over the phone that do not involve them having to read their card details to a contact centre agent. As a consequence the demand for our solutions continues to increase.

Once Eckoh payment solutions have been deployed, there remains significant opportunity for the Company to cross sell other automated services and our advanced speech recognition technology, this should see contract values increase over time.

In early 2012 Eckoh released a new payment product called EckohPROTECT which enables a caller to enter their credit card information using either their keypad or verbally using speech recognition with none of this sensitive information being passed to the agent. Demand for EckohPROTECT has been high with many clients opting for a solution which uses this service whilst their contact centre is open but reverts to our automated payment solution EckohPAY when it is closed, enabling the organisation to continue to take payments on a 24/7 basis.

In addition, Eckoh has its own in-house contact centre which provides services to clients including Vue, Ministry of Justice and Transport for London. As our contact centre is also fully level 1 PCI DSS compliant we are able to offer our clients the additional option of having any calls that cannot be completed using the automated payment solutions to be concluded by our agents. This provides a complete end-to-end PCI compliant solution which is proving attractive to a number of potential clients. As an example, we announced today a three year contract with a large financial services company specialising in insurance, who have contracted to a solution which combines EckohPAY, EckohPROTECT and Eckoh's contact centre to ensure that absolutely no card payment data can enter their environment, whatever the circumstances.

Our key speech product remains EckohASSIST which enables organisations to answer calls with a simple automated 'how can we help you'? This service has recently been deployed extensively across many of Transport for London's services. Callers are able to answer in a completely open and natural manner and the speech recognition technology is used in combination with a knowledge engine to establish their requirement. In the event that there is a low confidence in this outcome the caller's response can be streamed to a 'hidden' contact centre agent who is able to categorise the call correctly. This combination of automation and human assist leads to an extremely high level of accuracy whilst significantly reducing the length of time the caller takes to receive their specified service. We anticipate further sales of EckohASSIST during the coming period.

Contract wins and renewals

Since our previous results release in June 2012, we have announced a number of new contract wins. Within the payments sector we have announced a;

- Three year contract with a global financial service company specialising in insurance to provide EckohPAY, EckohPROTECT and contact centre services (secured via our direct sales team)
- Three year contract with Whitbread plc to provide EckohPROTECT and EckohROUTE to the Premier Inn hotel chain (secured via our direct sales team)
- Two year contract with Kiddicare for EckohPROTECT (secured via our new partnership with a global service provider)
- Three year contract with the CIMA to provide EckohPAY and EckohPROTECT (secured through the same partnership with a global service provider)
- Three year contracts for EckohPAY with two new water utility clients (secured directly)

In addition we have secured a significant new three year contract with Serco to provide a range of speech recognition solutions to a central government department and we are excited about further opportunities currently being pursued in the public sector arena.

Whilst it is important for the continued growth of the business to maintain this strong new contract momentum, it is equally important to be renewing and broadening existing customer relationships. Therefore, we have been successful during the first half of the year in selling additional services to existing clients such as O2, Rentokil and Addison Lee which will contribute in the second half.

We have also been able to secure renewals with all contracts expiring in the first half of the year including;

- Three year renewal of contract to provide Vue with a range of services including speech enabled cinema information and ticket booking (this is the largest client to be renewed this financial year)
- Three year renewal of contract to provide Power NI with billing services including payments and meter readings
- Two year renewal of contract with the UK's leading postal operator to provide a range of delivery related services

Current trading and Outlook

The influx of new contracts along with a traditionally stronger second half of the financial year is expected to see the Company complete the current financial year in line with market expectations.

The recent initiatives to expand our channel partnerships and the impact of our scaled direct sales and marketing effort have delivered an unprecedented level of activity within our sales pipeline. The conversion of these opportunities from initial meeting to contracted client has been good and reflects the quality of the services that Eckoh now provides.

Levels of activity within the sales team remain high and are anticipated to deliver a number of new client wins in the second half of the year, which will ensure the growth seen in recent periods will continue into the medium term.

Financial Review

Revenue and Margin

Although the first half of the financial year has been extremely successful in terms of winning new clients, this has yet to feed significantly into the financial results for the Company. The financial model of the Company is that revenue is predominantly earned over the course of a contract, usually only around 10% is charged as a set-up fee and in some instances there is no set up fee. In most instances it can be several months from a contract being announced to the point where the service is live and generating revenue. As an example, of the contracts listed above only one generated any recurring revenue in the first half, but the other 6 contracts will begin to contribute to the financial performance of the Company in the second half of the year and then fully to the 2013/4 financial year.

Our new contracts are becoming more biased towards our payment solution services which are typically faster to deploy than complex speech services. This reduces the length of the average sales cycle which should lead to the volume of new contracts growing at a faster rate than in previous years. The value of a payments contract is generally lower than a speech contract; however, we would expect in many instances to be able to cross sell speech services into these clients once the relationship has been established.

Revenue for the 6 months ending 30 September 2012 was £5.1m (H1 2011/12: £5.0m). The revenue for this period has been generated by a total of 47 clients (H1 2011/12: 38 clients) and generated a higher margin of 77% (H1 2011/12: 75%) which led to a 4% increase in margin overall to £3.9m (H1 2011/12: £3.7m). The higher quality of this year's revenue is further substantiated by 91% (FY 2011/12: 87%) being represented by revenue that is recurring in nature relating to fees charged on a monthly basis to this wider base of clients.

Profitability Measures

Despite the increase in activity relating to the influx of new customers, costs have been managed and are only moderately higher than the corresponding period of the prior half year at £3.5m (H1 2011/12: £3.4m). An increase in costs seen arising from headcount in the core business increasing to 57 people at 30 September 2012 (30/9/11: 49 people), an increase in office space and inflationary costs has been offset by some efficiency savings on the telephony platform. There has been a modest increase in profit during the period although much of the benefit of increased investment in the business will not be seen until the second half of the financial year.

	6 months ended 30 Sept 2012 £'000	6 months ended 30 Sept 2011 £'000	Year ended 31 March 2012 £'000
Operating profit	**404**	**381**	**1,107**
Amortisation of intangible assets	**152**	177	349
Depreciation	**321**	249	505
EBITDA	**877**	**807**	**1,961**

It is anticipated that costs will remain relatively stable for the remainder of the financial year while revenues will increase significantly from the commencement of services for new clients along with seasonal increases in call volumes for many of our clients.

Statement of financial position

Cash generated from operating activities increased to £0.4m (H1 2011/12: £0.3) contributing to the balance of cash and short term investments increasing to £6.7m (30/9/11: £5.9m; 31/3/12: £6.4m). The strength of the Company balance sheet continues to underpin the value of the Company and gives comfort to prospective new clients about committing to a long term contract.

A deferred tax asset is recognised on the basis of projected profits over the next three financial years. The anticipated continuation of profit growth has resulted in the deferred tax asset increasing by £120k to £1.4m. There are also over £3m of additional deferred taxation assets in respect of trading losses.

Statement of comprehensive income
for the 6 months ended 30 September 2012

	Six months ended 30 September 2012 £'000 (unaudited)	Restated Six months ended 30 September 2011 £'000 (unaudited)	Year ended 31 March 2012 £'000 (audited)
Continuing operations			
Revenue	**5,061**	4,972	10,392
Cost of sales	**(1,177)**	(1,233)	(2,497)
Gross profit	**3,883**	3,739	7,895
Administrative expenses	**(3,479)**	(3,358)	(6,788)
Profit from operating activities	**404**	381	1,107
Finance income	**26**	17	49
Profit from sale of investment	**-**	-	100
Profit before taxation	**430**	398	1,256
Taxation (notes 1 & 2)	**120**	1,253	1,320
Total comprehensive income for the period	**550**	1,651	2,576
Profit per share expressed in pence			
Basic	**0.26**	0.83	1.29
Diluted	**0.25**	0.80	1.23

Consolidated statement of financial position

as at 30 September 2012

	30 September 2012 £'000 (unaudited)	Restated 30 September 2011 £'000 (unaudited)	31 March 2012 £'000 (audited)
Assets			
Non-current assets			
Intangible assets	**300**	495	386
Property, plant and equipment	**1,410**	1,167	1,488
Deferred tax asset	**1,440**	1,253	1,320
	3,150	2,915	3,194
Current assets			
Inventories	**19**	12	19
Trade and other receivables	**3,445**	2,669	3,583
Short-term investments	**3,000**	2,170	1,000
Cash and cash equivalents	**3,694**	3,737	5,370
	10,158	8,588	9,972
Total assets	**13,308**	11,503	13,166
Liabilities			
Current liabilities			
Trade and other payables	**(1,551)**	(1,378)	(2,261)
	(1,551)	(1,378)	(2,261)
Non-current liabilities			
Provisions	**(43)**	(48)	(43)
	(43)	(48)	(43)
Net assets	**11,714**	10,077	10,862
Shareholders' equity			
Share capital	**522**	499	499
Capital redemption reserve	**198**	198	198
Share premium	**1,321**	695	695
Currency reserve	**(41)**	(41)	(41)
Retained earnings (note 1)	**9,714**	8,726	9,511
Total shareholders' equity	**11,714**	10,077	10,862

Consolidated interim statement of changes in equity

as at 30 September 2012
(unaudited)

	Share capital £'000	Capital redemption reserve £'000	Share premium £'000	Restated retained earnings £'000	Currency reserve £'000	Total shareholders equity £'000
Balance at 1 April 2011	499	198	695	7,030	(41)	8,381
Total comprehensive income / (expense) for the period	-	-	-	1,651	-	1,651
Share based payment charge	-	-	-	45	-	45
Balance as at 30 September 2011	499	198	695	8,726	(41)	10,077
Balance as at 1 October 2011	499	198	695	8,726	(41)	10,077
Total comprehensive income / (expense) for the period	-	-	-	925	-	925
Dividends paid in period	-	-	-	(200)	-	(200)
Share based payment charge	-	-	-	60		60
Balance at 31 March 2012	499	198	695	9,511	(41)	10,862
Balance at 1 April 2012	499	198	695	9,511	(41)	10,862
Total comprehensive income / (expense) 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 at 30 September 2012	**522**	**198**	**1,321**	**9,714**	**(41)**	**11,714**

Consolidated statement of cashflows

for the 6 months ended 30 September 2012

	Six months ended 30 September 2012 £'000 (unaudited)	Restated Six months ended 30 September 2011 £'000 (unaudited)	Year ended 31 March 2012 £'000 (audited)
Cash flows from operating activities			
Profit after taxation	**550**	1,651	2,576
Profit on sale of investment in associate	**-**	-	(100)
Interest income	**(26)**	(17)	(49)
Increase in deferred tax asset (note 1)	**(120)**	(1,253)	(1,320)
Depreciation of property, plant and equipment	**321**	249	505
Amortisation of intangible assets	**152**	177	349
Share based payments	**60**	45	105
Operating profit before changes in working capital and provisions	**937**	852	2,066
Decrease in inventories	**-**	(8)	(15)
Increase / (decrease) in trade and other receivables	**138**	428	(486)
Decrease in trade and other payables	**(710)**	(941)	(58)
Increase in provisions	**-**	5	-
Cash generated from operations	**365**	336	1,507
Interest paid	**-**	-	-
Net cash generated from continuing operating activities	**365**	336	1,507
Cash flows from investing activities			
Purchase of property, plant and equipment	**(243)**	(68)	(645)
Purchase of intangible fixed assets	**(66)**	(65)	(128)
Proceeds from sale of investment in associate	**-**	-	100
Increase in short term investments	**(2,000)**	(1,853)	(683)
Interest received	**26**	17	49
Net cash utilised in continuing investing activities	**(2,283)**	(1,969)	(1,307)
Cash flows from financing activities			
Dividends paid	**(407)**	-	(200)
Issue of Shares	**649**	-	-
Net cash generated from / (utilised in) continuing investing activities	**242**	-	(200)
Decrease in cash and cash equivalents	**(1,676)**	(1,633)	-
Cash and cash equivalents at the start of the period	**5,370**	5,370	5,370
Cash and cash equivalents at the end of the period	**3,694**	3,737	5,370

Notes to the Financial Statements for the six months ended 30 September 2012

1. Restatement of Comparative period

In preparing the unaudited financial statements for the six months ended 30 September 2011, management recognised for the first time a deferred tax asset of £2.1m. In calculating the deferred tax asset for the year ended 31 March 2012, management noted an error in the initial calculation used for the interim statement for the six month period ended 30 September 2011, which should have been stated at £1.3m rather than £2.1m.

The comparative figures for the six months ended 30 September 2011 have been restated to correct this error. The total comprehensive income for the six month period ended 30 September 2011 as originally stated of £2.5m has as a result been restated in the comparative figures to be £1.7m. A further £3.1m asset in respect of trading losses remains unprovided for. There is no impact on the figures presented at 31 March 2012.

2. Taxation

The ongoing growth of the business into increasing profitability has provided sufficient evidence that a further £120,000 of previously unprovided deferred tax assets in respect of trading losses will be recoverable, and is therefore being recognised as an asset on the statement of financial position. This asset has been valued based on the projected profits over the next three financial years.