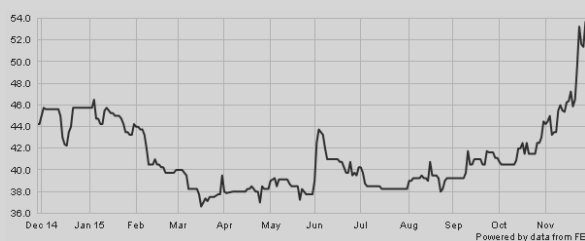


Key Statistics

| | |
|--------------------|--------------------------------|
| Code | : ECK |
| Listing | : AIM |
| Sector | : Software & Computer Services |
| Market Cap | : £121.39m |
| Share in issue | : 224.79m |
| Current Price | : 54.00p |
| 12 month High/Low: | : 54.55p/35.89p |

Stock Performance



Financials

| £'m | 2015 | 2014 | 2013 | 2012 |
|--------------|-------|-------|-------|-------|
| Revenue | 17.16 | 14.04 | 10.99 | 10.39 |
| PBT | 2.12 | -1.37 | 1.19 | 1.26 |
| Profit | 2.11 | 0.3 | 1.91 | 2.58 |
| EPS (p) | 0.85 | 0.12 | 0.89 | 1.23 |
| Cash | 4.42 | 7.34 | 5.49 | 5.37 |
| Dividend (p) | 0.37 | 0.31 | 0.25 | 0.20 |

Source: Eckoh Final Results

Company description

Eckoh provides multi-channel customer service and secure payment solutions. The Company's products include Call Recording, Call Guard and Haloh. The Company, through its partnership with Capita's Customer Management division provides various **Eckoh** services, including **EckohROUTE**, **EckohID** and **EckohPAY**. In addition to its payments products it has a portfolio of customer service solutions that target organisations with contact centres. The Company's multi-channel products give customers the ability to make enquiries, get information or make transactions over the phone, Web or mobile.

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"...Something stirs and something tries, starts to climb towards the light." Echoes (Waters, Wright, Mason, Gilmour)

To state the staggeringly obvious, merchants want "more customers with bigger baskets" and they do **not** want "damaged reputations and lost or incomplete sales". To get the former they must (as well as a great many other things) prevent the latter, which is where **Eckoh's** expertise lies.

- **High margin business**
- **Large and fast growing market**
- **Dynamic management team**
- **High organic and acquisition growth**

With regards to reputational risk it is easy to cite recent examples of data theft that have wreaked havoc on, TalkTalk, Ashley Madison, Vodafone, and Carphone Warehouse, and those are just UK household names in the last few months, the problem is global. In terms of lost sales I expect nearly every reader will have recent memories of having given up on trying to get through to a call centre, or trying to buy something on their phone or PC. Given up because it just became too boring, confusing, crashed the system, did not work and in the final analysis was very annoying.

Eckoh is a global provider of secure payment products and customer contact solutions. Their "Haloh" payment system means there is no card data in their customers' organisations to be hacked or stolen. Their Customer Contact solutions ensure a significantly more positive experience for their customers' end-users.

For disclosures, refer to the Disclosure Section

Business

The business divides into two segments- Payments and Customer Contact:

1) Payments

Eckoh has a suite of secure payments products:

CallGuard (CGO), which prevents the agent, or call recording solution, having access to the credit card number. The credit card number still runs through the IT infrastructure of the merchant. CGO only deals with payments over the phone.

Haloh replaces the credit card number with a token so that the credit card number cannot be seen at all in the IT infrastructure and is not be stored anywhere. Haloh can handle payments by phone but also over a website or via a mobile. HALOH is completely flexible, and its modules can be applied to any or all parts of a customer's contact centre or web payment channels.

DataGuard stops card data entering the organisation.

EckohPay allows customer self service payments via web or mobile.

2) Customer Contact

Businesses need to adopt an omni-channel approach to dealing with their end-users. **Eckoh** provides; Interactive Voice Response (IVR); Speech Recognition; Web and Mobile customer interaction products to streamline these processes. Reducing their customers' costs but also providing the end-users with a positive experience when dealing with the organisation.

Customer Acquisition

Around a quarter of **Eckoh's** clients by number, and around 30% by revenue, come through partner channels, particularly BT (20 clients 13% Rev) and Capita (3 clients 17% Revs.)

Segment Analysis

36% of customers take the payment solution only. 34% take the customer contact solution only and the balance, around 30%, take payments and customer contact.

Revenue Model

For customers there is usually a fixed fee each month that includes a number of transactions. Customers pay extra if they exceed the minimum level. The revenues can't easily therefore be split by fixed fee vs transactions. Typically the larger organisations tend to want a fixed price, which of course gives greater visibility but reduces potential upside.

Margins

For the first six months, of the current year, to 30 September 2015 the gross margin came in at 82%. (H1 14/15 72%). A meaningful improvement, but also a reflection of skewed historic comps. The management would consider the low 80's% to be the more normal level for the legacy **Eckoh** business. Product Support Solutions Inc. (PSS) gross margins currently run at around 45%, so group margins will be diluted by this acquisition, but the management intend to look at how it can increase margins in PSS too.

Recurring revenues were running around 78% (H1 14/15 76%). Second half revenue is typically stronger the first half thanks to the weather and Christmas effects on the core customer segments of travel, retail, leisure and logistics.

The cost base is primarily headcount and platform costs. This is pretty much fixed and the business is currently operating well within capacity. **Eckoh** can handle 6,000 concurrent calls and doesn't tend to exceed 1,000 on any given day. Management believes it can treble revenue before needing to look at increasing capacity on the

platform, giving plenty of operational gearing. Since 2009 gross profit has risen by £8.8m with just an £4.5m increase in admin expenses.

Competitors

A significant portion of the competition is from in-house IT solutions. The most direct competition is from a private company called *Semafone Ltd.* Listed comparable companies might include *Netcall (NET:LON)* and *Digital Globe Services Ltd (DGS:LON)* on the customer contact side and *IP Plus (IPP:LON)* who, as well as running call centres, also has a proprietary solution for taking payments without the agents being able to access the data. Other AIM listed companies in the broader 'risk management' space might include *GB Group (GBG:LON)*, *Lombard Risk (LRM:LON)* and *ClearStar (CLST:LON)*.

Outlook

On the 18 November 2015, the Company announced the acquisition of Product Support Solutions Inc. (PSS) for a net (after cash) consideration of £3.7m. The transaction is expected to be immediately earnings enhancing having produced approximately £800k of pre-tax profit last year. PSS brings more scale in the UK and US Customer Contact business as well as opening up Australia. There are multiple cross-selling opportunities both through PSS' additional products into **Eckoh's** clients and vice versa. The combined business has scope to be considerably more than the proforma sum-of-the-parts. **Eckoh's** management will continue to look at potential acquisitions which would either bring complementary new products e.g. Webchat, or strengthen its geographic footprint further.

Eckoh has signed a new 5 year framework agreement with Capita – the three contracts secured through Capita thus far have produced contracts with a minimum total value of £15m.

Last year **Eckoh** concluded 25 new contracts in the year which was a record and it has done 13 since June so it is on track for a personal best. In the US it won 5 contracts in the last financial year 2014/5 and has won five more since June. The UK pipeline is strong and a little larger than last year. The US pipeline is a lot bigger than last year and at a more advanced stage of the cycle. Thirteen existing contracts which were up for

renewal have renewed (100%), so we can expect growing and recurring revenue in the near term.

Hardly a week goes by without some corporate cyber scandal emerging where data has been hacked, think *Ashley Madison*, *Talk Talk (TALK:LON)* or *Vodafone (VOD:LON)*. There is not a business manager in the world who is not asking their IT manager how secure they are and the market for **Eckoh's** products is surely burgeoning on the back of this. The "in-house" solution is not looking like the option of choice anymore.

Customers

Eckoh has an extensive and wide range of customers from Xerox, Yodel, and Ministry of Justice to William Hill. The top customer represents around 12% of revenue. The top 10 customers would represent around 50%. PSS also bring an impressive array of tier one clients such as *AT&T (T:NYSE)* and *Vodafone (VOD.LON)* but also including alliances with major contact centre technology providers like *Avaya GmbH & Co. KG* and *Microsoft (MSFT:NASDAQ)*

Management

Chris Batterham - Non-Executive Chairman - qualified as an accountant with Arthur Anderson and has significant experience in the technology based business environment, including the flotation of Unipalm on the London Stock Exchange. Currently on the boards of a number of companies including SDL plc, Iomart plc and Office2Office plc, Chris brings a wealth of experience in the strategic development of companies in the IT sector.

Clive Ansell - Non-Executive Director - joined the Board in July 2009 and is currently CEO of Tribal Technology at Tribal Group plc. Formerly, he had held several senior executive and strategic roles at BT, worked as a strategic consultant to the Board of Royal Mail, spent three years as an executive board director of Japan Telecom, and led major M&A projects in the US. Clive is an Oxford graduate, a patron of Crimestoppers and sits on the boards of a number of charities and business representative groups.

Nik Philpot - Chief Executive Officer - joined the Board in February 1999, was appointed COO and Deputy CEO in September 2001 and appointed CEO in September 2006. Nik was a co-founder of Symphony Telecom and formerly worked for British Telecom. As a founder of **Eckoh** he has created the UK's largest provider of customer service solutions using speech recognition for the contact centre industry. Nik has 25 years' experience in the voice services industry.

Adam Moloney - Group Finance Director - has been Finance Director at **Eckoh** for eight years and has seen the Group through a period of continuous change over that time. Prior to joining the company in 2003 he worked in senior financial roles for a number of organisations and immediately prior to joining **Eckoh**, was Manager of Finance & Operations for the UK arm of New York based IT hardware reseller, Resilien Inc.

Valuation

The shares have run up strongly since the summer taking the multiple to around 40x the broker's forecast for this year to March 2016 and around 30x next year, the numbers include a conservative upgrade for the PSS deal. The metrics are pretty much in line with *GB Group (GBG:LON)* and *Lombard Risk (LRM:LON)* who are similar comps in that they are both profitable and growing fast like **Eckoh**. There is also a dividend of around 0.7%.

Conclusion

Eckoh is doing a great job in a valuable niche. The valuation is perhaps punchy on first glance, and when compared some other tech. companies in the market. However the valuation is quite reasonable when looking at similar companies with equally large opportunities in the risk mitigation area. **Eckoh** has been around for a few years but with its current product offering and management team and with very favourable underlying market conditions, it has become a very exciting prospect. To misquote The Floyd, it has 'stirred, tried and is definitely climbing towards the light'.

Consolidated statement of comprehensive income six months ended 30 September 2015

| | Six months ended 30 September 2015 £'000 (unaudited) | Six months ended 30 September 2014 £'000 (unaudited) | Year ended 31 March 2015 £'000 (audited) |
|---|---|---|--|
| Continuing operations | | | |
| Revenue | 8,585 | 7,780 | 17,158 |
| Cost of sales | -1,505 | -2,153 | -4,055 |
| Gross profit | 7,080 | 5,627 | 13,103 |
| Administrative expenses | -5,604 | -4,599 | -9,715 |
| Adjusted Operating Profit | 1,476 | 1,028 | 3,388 |
| Amortisation of acquired intangible assets | -660 | -660 | -1,320 |
| Expenses relating to share option schemes | -343 | -480 | -939 |
| Aborted transaction costs | -369 | - | - |
| Legal fees and settlement costs | - | - | -527 |
| Profit / (loss) from operating activities | 104 | -112 | 602 |
| Interest payable | -36 | - | -19 |
| Finance income | - | 211 | 1,518 |
| Interest receivable | 6 | 10 | 20 |
| Profit before taxation | 74 | 109 | 2,121 |
| Taxation | -135 | 10 | -16 |
| Total comprehensive (loss) / income for the period | -61 | 119 | 2,105 |
| (Loss) / Profit per share expressed in pence | | | |
| Basic | -0.03 | 0.05 | 0.96 |
| Diluted | -0.02 | 0.05 | 0.85 |

Sources: Eckoh Interim Results

Consolidated Statement of Financial Position as at 30 September 2015

| | 30 September 2015 | 30 September 2015 | 31 March 2015 |
|---|--------------------------|-------------------|---------------|
| | £'000 | £'000 | £'000 |
| | (unaudited) | (unaudited) | (audited) |
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 7,765 | 8,989 | 8,317 |
| Tangible assets | 5,203 | 1,298 | 5,191 |
| Deferred tax asset | 5,137 | 4,472 | 4,938 |
| | 18,105 | 14,759 | 18,446 |
| Current assets | | | |
| Inventories | 245 | 149 | 224 |
| Trade and other receivables | 6,481 | 4,310 | 7,033 |
| Cash and cash equivalents | 3,677 | 4,148 | 4,419 |
| | 10,403 | 8,607 | 11,676 |
| Total assets | 28,508 | 23,366 | 30,122 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | -4,530 | -3,508 | -6,217 |
| Contingent consideration | -636 | -486 | - |
| Other interest-bearing loans and borrowings | -636 | - | -636 |
| | -5,802 | -3,994 | -6,853 |
| Non-current liabilities | | | |
| Other interest-bearing loans and borrowings | -1,787 | - | -2,105 |
| Contingent consideration | - | -1,458 | -636 |
| Deferred tax liability | -730 | -991 | -862 |
| | -2,517 | -2,449 | -3,603 |
| Net assets | 20,189 | 16,923 | 19,666 |
| Shareholders' equity | | | |
| Share capital | 558 | 556 | 558 |
| ESOP Reserve | -135 | -22 | -135 |
| Capital redemption reserve | 198 | 198 | 198 |
| Share premium | 5,203 | 5,133 | 5,175 |
| Currency reserve | 47 | -41 | 56 |
| Retained earnings | 14,318 | 11,099 | 13,814 |
| Total shareholders' equity | 20,189 | 16,923 | 19,666 |

Sources: Eckoh Interim Results

Consolidated cash flow statement for six months ended 30 September 2015

| | Six months ended 30 September 2015 £'000 (unaudited) | Six months ended 30 September 2014 £'000 (unaudited) | Year ended 31 March 2015 £'000 (audited) |
|--|---|--|--|
| Cash flows from operating activities | | | |
| (Loss) / Profit after taxation | -61 | 119 | 2,105 |
| Interest income | -6 | -10 | -20 |
| Interest payable | 36 | - | 19 |
| Finance income | - | -211 | -1,518 |
| Taxation | 135 | 39 | 278 |
| Increase in deferred tax asset | - | -49 | -262 |
| Depreciation of property, plant and equipment | 366 | 336 | 690 |
| Amortisation of intangible assets | 850 | 862 | 1,710 |
| Share based payments | 101 | 190 | 322 |
| Exchange differences | -9 | - | - |
| Operating profit before changes in working capital and provisions | 1,412 | 1,276 | 3,324 |
| Increase in inventories | -21 | -45 | -120 |
| Decrease / (Increase) in trade and other receivables | 552 | -734 | -3,457 |
| (Decrease)/Increase in trade and other payables | -1,689 | -1,975 | 976 |
| Decrease in provisions | - | -43 | -43 |
| Cash generated / (utilised) from operations | 254 | -1,521 | 680 |
| Taxation | - | - | -101 |
| Net cash generated / (utilised) from continuing operating activities | 254 | -1,521 | 579 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | -378 | -772 | -5,019 |
| Purchase of intangible fixed assets | -298 | -215 | -391 |
| Interest paid | -36 | - | -19 |
| Interest received | 6 | 10 | 20 |
| Net cash utilised in continuing investing activities | -706 | -977 | -5,409 |
| Cash flows from financing activities | | | |
| Dividends paid | - | -695 | -695 |
| Proceeds from new loan | - | - | 2,900 |
| Repayment of borrowings | -318 | - | -159 |
| Issue of shares | 28 | - | - |
| Shares acquired by Employee Benefit Trust | - | - | -138 |
| Net cash (utilised) / generated in continuing investing activities | -290 | -695 | 1,908 |
| Decrease Increase in cash and cash equivalents | -742 | -3,193 | -2,922 |
| Cash and cash equivalents at the start of the period | 4,419 | 7,341 | 7,341 |
| Cash and cash equivalents at the end of the period | 3,677 | 4,148 | 4,419 |

Sources: Eckoh Interim Results

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