Half-year Report

PCI-PAL PLC

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PCI-PAL PLC
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PCI-PAL PLC

("PCI Pal" or "the Group" or "the Company")

Interim Results for the Six Months Ended 31 December 2018

PCI-PAL PLC (AIM: PCIP), the customer engagement specialist that secures and protects payment card data for companies handling payments by phone, is pleased to announce its unaudited interim results for the six months to 31 December 2018.

Financial Highlights for the Period

- Revenue increased by 28% to £1.18 million (2017: £0.92 million).
- Recurring fee revenues increased by 23% to £0.99 million (2017: £0.80 million).
- The Group has signed new contracts worldwide with a Total Contract Value (TCV) of £3.41 million (2017: £0.68 million) which is 53% greater than the TCV of sales achieved for the full prior financial year. Within that, North American contract wins for the first six months were ahead of management expectations with a TCV of £0.95 million (2017: nil).
- The recurring Annual Contract Value (ACV) of the above new contracts worldwide signed by the Group was £1.30 million (2017: £0.17 million) which is 136% greater than the ACV of sales achieved for the full prior financial year.
- Adjusted Loss from Operating Activities(1) of £2.16 million (2017: £1.63 million) reflecting additional £1.16 million of expenditure in the North American operations following its launch in February 2018.
- The Group has a strong balance sheet position with net cash of £3.54 million (30 June 2018: £3.75 million), boosted by the final payment of £1.34 million of the loan note.
- Deferred revenue, and hence revenue visibility, increased to a total of £2.33 million (30 June 2018: £1.08 million) reflecting the long-term recurring nature of the Group's business model.

Operating Highlights

- Continued execution of our channel-first sales strategy to be the go-to provider of secure cloud payment solutions to contact centre telephony vendors; extending PCI Pal's customer reach through partnering with trusted industry brands. We have signed contracts with four of North America's leading Value-Added Resellers (VARs) and Master Agents each of whom sells existing, and targeted, partner cloud and on-premise contact centre offerings.
- 75% of signed deals in H1 were sold via partners (2017: 61%).
- 80% of pipeline as at 31 December 2018 was sourced from partners (2017: 53%).
- Development of a global partner program to professionally support our channel partners, incorporating industry-leading techniques associated with on-boarding, sales enablement, time-to-market, training, service and support.
- In July 2018 hired a US-based senior channel executive, with an extensive and successful contact centre industry track-record. In February 2019, he was promoted to Chief Revenue Officer (CRO) of the Group to drive the global nature of our sales organisation as well as our partner-first approach.
- Added additional resource and skills to our engineering and customer deployment teams to increase operational efficiency, scalability and speed of customer deployments, as sales growth continues. Total headcount at the end of the period was 46 (2017: 36) including 10 (2017: 4) in the US.
- In response to customer and partner demand we have activated additional instances of AWS in Montreal and Sydney, with our platform now enabled to provide services across Europe, North America and ANZ.

(1) Adjusted for exceptional costs and expenses relating to share options - see Note 6

Post Period Highlights

- Signed another worldwide reseller contract with a key targeted integrated Contact Centre as a Service (CCaaS) provider. Headquartered in North America, this provider is one of the fastest growing cloud vendors in the global contact centre technology market.
- Launched a global partner program, including a partner portal gateway, with a wide range of marketing and sales support tools and documentation to enable partner success. The program is currently available on beta trial to select channel partners in both the US and UK; and will be made fully available in Q4.

Commenting on the results for the period, James Barham, Chief Executive Officer said:

"I'm pleased with the steady financial progress that we have made over the last six months and the strong growth in our key leading indicators, in particular the new business recurring ACV values signed in the period. The high proportion of new business being generated from partners is validating our initial investments in our channel-first go to market strategy, and we intend to add other select global leading partnerships in the future as our brand and reputation continues to grow internationally. Our operational focus on engineering and implementations, to both enable these partners and deploy services for their customers, is paramount as we scale the business both in the UK and North America."

Chris Fielding, Chairman of the Board added:

"PCI Pal has reached a key point in its development. The management team has made positive progress against our principal strategic and operational objectives to be able to scale the business in line with our growth ambitions.

"We are all genuinely excited that we have the right strategy and team in place to take advantage of the significant market opportunities ahead and look forward to reporting to our shareholders further progress over the coming months."

This announcement contains inside information for the purposes of Article 7 of Regulation 596/2014.

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About PCI Pal:

PCI Pal is a specialist provider of secure payment solutions for contact centres and businesses taking Cardholder Not Present (CNP) payments. PCI Pal's globally accessible cloud platform empowers organisations to take payments securely without bringing their environments into scope of PCI DSS and other card payment data security rules and regulations.

With the entire product portfolio served from PCI Pal's cloud environment, integrations with existing telephony, payment, and desktop environments are light-touch, ensuring no degradation of service while achieving security and compliance.

PCI Pal has offices in London, Ipswich (UK) and Charlotte NC (USA). For more information visit www.pcipal.com or follow the team on Twitter: https://twitter.com/PCIPAL

Chief Executive Officer's Business Review

After a half year that included several changes within the PCI Pal business, I am pleased to report a period of strong growth across all our key metrics, enabled by the execution of the strategies we set out going into FY2019.

These strategies were the accessibility of our virtualised cloud offering hosted on Amazon Web Services (AWS), penetrating the North American market through channel relationships, and growing our capability to attract major global cloud channel partners through our easy-to-integrate technology.

In the period we have continued to differentiate ourselves as the only partner-first, pure-play, cloud PCI vendor with globally accessible solutions. It is these characteristics that have enabled us to make good progress against our key metrics with early sales success through contact centre vendor and VAR partners.

The combination of our cloud solution and partner-first sales approach is essential in enabling efficient scaling of the business to benefit from the growing demand for PCI compliant solutions. Our platform within the AWS environment provides simple methods by which our partners can access and deliver PCI Pal services to their customers. It also allows us to deliver our services anywhere in the world, scaling the business in line with commercial demand.

Market Drivers

Having witnessed the development of the UK market's recognition of the need for data security and, more specifically, PCI compliance; we are now seeing the North American market begin to follow for a number of key reasons:

1. Companies are beginning to understand the financial risk implications of not securing customer data with continued well publicised and brand-damaging data breaches being reported globally;

2. Regulation in the form of GDPR in the EU, and various new State-based laws in the US, is forcing organisations to create budgets and putting boards under pressure to resolve data security challenges;

3. The continued evolution of PCI compliance guidelines and support of all the major card schemes globally to drive merchant behavior to secure customer data when taking payments; and

4. The growing voice of the consumer. Consumers are no longer prepared to ignore breaches of organisations that allow the theft or loss of their personal data - instead shifting their buying preferences to brands that they believe they can trust.

All of these factors are coming together to fuel the growing marketplace within which PCI Pal operates.

The North American market has been, and remains, under-penetrated by PCI compliance solution providers within the contact centre space. We previously set out our plans to focus on channel to scale in North America and, in our first full financial year in the region, we are fast proving ourselves to be the most attractive option for partnership with CCaaS providers having secured agreements with several of the market leaders in the region. The CCaaS space in North America is undergoing significant growth with fast moving market leaders such as NewVoiceMedia, inContact, TalkDesk, Ringcentral, and 8x8 bringing new cloud technology capability to the market for both new and upgrade customers. A change of contact centre platform is one of several trigger points for organisations to create budget for PCI compliance projects, or to reassess the effectiveness of historical attempts to meet compliance guidelines.

In our core markets of the UK and US we have seen a significant rise in understanding among the majority of prospects that basic security controls of the past, such as "pause and resume" call recording, are insufficient to either achieve PCI compliance or to follow optimal data security practices. This has been underlined by the view of Verizon (a global PCI compliance and data security thought leader) in their joint whitepaper that we recently released with them. It has also been confirmed by a recent updated guidance publication from the PCI Security Standards Council that recommends an approach to achieving compliance that is matched by the core solution approach of PCI Pal.

Cloud

The underpinning of the PCI Pal solution is our fully virtualised cloud-based platform. This avoids the need for on-premise hardware, and also allows for cost-efficient operational scale as and when commercial demand requires it.

Our ability to quickly stand up new network Points of Presence (PoPs) by utilising AWS, uniquely positions us to meet new partner and customer needs around the world. New instances in the period in Montreal and Sydney were each brought to operational standing within two weeks. Whether driven by regulation, industry practice or simply customer preference, our solution has the flexibility to meet customer data segregation requirements. We are therefore also well positioned to meet other customer data-sovereignty demands that may emerge post-Brexit.

Our cloud-based solution, in conjunction with leveraging SIP technology, enables a simple and light touch approach to solving our customers' and partners' PCI compliance challenges. This is particularly true when our solution is pre-integrated with CCaaS and carrier partners. We are experiencing increasing levels of interest as our reputation grows for delivering a more affordable, effective, and technically elegant solution to what is an inherently complex problem to solve.

North America

Our channel-first approach to the North American market is beginning to bear fruit as we see its continued positive impact on our growing pipeline. 76% of sales pipeline value at the end of the period is now coming from channel sourced qualified opportunities. Sales enablement and the development of our global Partner Program have been key focus areas as we look to capitalise on signed partner agreements and new partner accounts going forward**.** Other key highlights in the period were:

- Established an experienced sales and marketing team covering East to West coast territories.
- Signed second largest deal in the Company's history with a major global household goods manufacturer.
- Signed partnership agreements with three major VARs and the largest Master Agent in North America, two of which were competitive scenarios.
- Signed first customer order through a major Canadian carrier.
- Issued our first-in-a-series of collaborative thought leadership pieces with Verizon, a global telco and security assurance practice.

With low levels of competition in the North American market, limited primarily to UK-domiciled competitors deploying a direct sales approach, we believe we are well-positioned to scale the business in the region and already have a solid foothold to achieve significant market share. This belief is underpinned by our growing reputation as the recognised leader in the payment security space for cloud-to-cloud integrations with CCaaS vendors.

EMEA

The UK-based EMEA business has made significant progress year on year increasing signed recurring ACV by six fold to £1.07 million (2017: £0.17 million). 84% of the pipeline value at the end of the period in EMEA is now coming from channel sourced qualified opportunities.

In the period, we have experienced continued success with existing UK-based partners which included the signing of the Company's largest contract to date through a reseller delivering services to one of the largest contact centres in the UK. Additionally, we have grown the partner base including a new reseller contract with a leading Genesys cloud VAR.

During the period we have seen increased demand from mainland Europe-based opportunities both through existing partners and new prospective partners in the region. In the period we signed a new integrated partner contract with a Northern European regional carrier specialising in SIP telephony services, as well as winning a customer contract with a well-known Southern European airline. Our current AWS instance in Dublin, as well as our planned activation of a Frankfurt-based PoP, will allow us to capitalise on further interest in our services post-Brexit.

Channel Partners

PCI Pal's evolution to a partner-first business is well advanced with 80% of the global sales pipeline now consisting of partner sourced opportunities. Channel gives us the ability to grow sales and marketing both in terms of volume and geography, particularly as many of our partners have global and not just regional coverage. Our channel partners will also enable us to scale cost-effectively, not just through efficiency of marketing spend, but also efficiency of the customer solution implementation. Through integrating the PCI Pal cloud service directly with our CCaaS and carrier partners, we are able to make our solutions economically available to most sizes of customer organisation by reducing the complexity of the implementation tasks.

Under our recently launched Partner Program we classify channel partners into the following categories differentiated by the extent of integration:

Integrated Partners - Telephony pre-integration with the PCI Pal environment from CCaaS platforms and Carrier networks creates opportunities for both ourselves and our partners to shorten sales cycles and enable more efficient and faster project delivery. This has been proven out with early integrated partners such as NewVoiceMedia, Natterbox and 8X8. Based on these early successes we are expanding these relationships globally as well as pursuing additional integrated reseller relationships with regional and global CCaaS and Carrier leaders. The Integrated Partner category also includes Payment Solution Providers such as Paymetric, Capita Pay360 and Civica, where the PCI Pal environment is pre-integrated to their payment gateway and desktop solutions.

Solution Partners - Reseller relationships in this category are typically VARs and Solution Providers focused on selling licences and services around the traditional on-premise contact centre platforms, for example Genesys, Cisco and Avaya. Such relationships provide access to the large installed customer bases of these vendors that are typically larger in size; and would otherwise necessitate a longer and less cost-effective marketing and sales cycle for PCI Pal. In the period we have signed three of the largest North American VARs serving the Genesys contact centre marketplace. More recently, these organisations have also begun to focus some of their reselling effort on the newer offerings from the CCaaS providers, a positive behavior for PCI Pal given our growing strength and customer adoption rates in this space. Also, in the period, we have signed a leading cloud focused VAR operating across the UK and EMEA.

Referral Partners - To date, our relationships with referral partners have been more reactive rather than pro-active. However, recognising the rising trend and success in the software marketing world of Master Agents, particularly for cloud vendors in the US, we have now sharpened our focus towards deliberately targeting this relatively new class of referral partner. Master Agents are highly organised networks of agents specialising in all segments of enterprise class cloud software applications. As referenced above, we are very pleased to have signed in the period the largest Master Agent in North America. While this is today mostly a North American market phenomenon, it is starting to spread around the world. This same Master Agent has recently opened regional businesses in the UK and Australia and our agreement was specifically tailored to anticipate working together globally.

Our experienced US-based team, each of whom has a long and reputable career in the contact centre market, have played a significant role to date in our ability to win and develop many of the new relationships across these partner categories. In Q1 we hired a US-based senior channel executive, who has an extensive and successful track-record in both the US and global contact centre market. In February 2019, he was promoted to Chief Revenue Officer (CRO) of the Group and will drive the global structure of our sales organisation as well as lead the further execution of our partner-first strategy.

The sales pipeline driven by our channel partners is increasing at a far greater growth rate than the increases in sales pipeline driven by directly generated opportunities. We expect this trend to continue as we focus on collaborative marketing activities and spend with partners as part of our recently launched Partner Program. We believe that our commitment to delivering value to our partners is a significant competitive differentiator. Our vision is to be the preferred solution provider that technology vendors turn to globally for achieving PCI compliance for payments by phone. This vision underpins our worldwide go-to-market strategy.

Operations

A major part of our operational focus is to scale our operating capability and capacity in the face of current and expected continued growth in sales. We are therefore focused on people, process and technology to produce that scale.

In the period we have added five new people in implementations and engineering in the UK and US, as well as creating additional open positions in these functions to be filled in the second half of this fiscal year. While it is a very competitive hiring market in our target regions, we are pleased with the high quality and depth of relevant market and technical experience in the people whom we have been able to attract by the PCI Pal story. Increasing available skilled resources is the first step to scale.

We have also taken a hard look at our operating methodologies in the above areas and are developing new and additional global processes with a view to eliminating silos and increasing efficiency in areas such as DevOps and customer implementations. Our goal is to continuously improve the rate and scope of our cloud platform updates for our partners and customers, and to reduce our average time required to deploy new customers.

Moving forward we intend to support our teams through additional investment in internal technology applications to manage our operational processes.

Financial Review

The Group has adopted IFRS 15 from the 1 July 2018. The prior year financial statements and opening retained earnings as at 1 July 2017 have been restated. Full disclosure of the changes relating to the adoption of IFRS 15 is detailed in Note 8 to the unaudited financial statements included below. The revenue that has been deferred following the adoption of this accounting standard has already been invoiced and will be recognised in accordance with the IFRS over future periods.

The regional operating results and underlying analysis used within the Group are shown in Notes 5 & 6.

Revenue for the period grew by 28% to £1.18 million, underpinned by a 23% increase in recurring revenue, which accounted for 84% (2017: 87%) of all revenue in the Group. The North American region has yet to make a meaningful contribution to Group revenue, reflecting the recent launch of our services in the region in early 2018 and the adoption of IFRS 15 by the Company.

The gross profit margin improved by 10 points to 51% (2017: 41%). It is expected that the margin will continue to improve as more customers are added to our second-generation, AWS cloud platform, which is run at a much lower cost of sales than the

Group's first-generation platform.

The overall results and loss for the period reflect the significant investment in our North American business following the successful fundraising in January 2018. As a result, the Adjusted Loss from Operating Activities for North America increased to £1.30 million (2017: £0.24 million). There are now 10 employees in the North American. In the EMEA region, the Adjusted Operating Loss improved to £0.57 million (2017: £0.95 million) while in the same period adding a further five employees, bringing the total to 36.

The Group incurred an exceptional charge of £0.35 million in the period relating to a settlement, which was paid in the period, with its former CEO together with the associated legal fees.

The Group has a strong balance sheet position with net cash of £3.54 million (30 June 2018: £3.75 million), boosted by the final payment of £1.34 million against the loan note which has now been fully repaid. Deferred revenue, and hence revenue visibility, increased to a total of £2.33 million (30 June 2018: £1.13 million) reflecting the long-term recurring nature of the Group's business model.

Outlook

In a period of rapid change for the business, PCI Pal has achieved significant growth in our key metrics in the period. We are optimistic for the outlook of the business as we intend to drive home the advantages of our easy-to-use cloud technology and global accessibility of our solution, expand our targeted channel partnerships, and continue to rapidly grow sales in North America.

In parallel with our planned channel-led growth, we will maintain operational focus on people, process and technology; critically assessing all operating areas to achieve continuous improvement and seek out increased efficiencies. Of particular near-term focus are on-boarding and sales enablement of new channel partners, and customer implementations.

The market drivers influencing the payment data security and PCI compliance markets are stronger than ever spanning both regulatory and commercial obligations. Our positioning with security leaders, such as Verizon, is supporting the positive exposure and growth of our brand. Our thought leadership in the contact centre space, particularly related to consumer behavior and attitudes towards the risk of data loss, is enhancing our credibility as a trusted supplier of compliance solutions.

We are extremely encouraged by our rate of progress in winning strategically targeted new channel partnerships, particularly in North America, among the leading CCaaS providers, VARs and Master Agents. It is this channel-first mentality, and our focused pursuit to deliver value for these partners, that will drive sales pipeline growth and allow us to efficiently scale this business globally.

It is our vision to position ourselves to be the preferred solution provider that technology vendors globally turn to for achieving PCI compliance for payments by phone. We are committed to this vision, excited by the progress we have made to date, and are optimistic for the growth opportunities ahead of us.

James Barham
Chief Executive Officer
21 February 2019

Consolidated statement of comprehensive income
for the six months ended 31 December 2018

	Six months ended 31 December 2018 £'000 (unaudited)	Six months ended 31 December 2017 £'000 Restated for IFRS 15 (unaudited)	Twelve months ended 30 June 2018 £'000 Restated for IFRS 15 (unaudited)
Continuing operations			
Revenue	**1,175**	919	2,007
Cost of sales	**(576)**	(540)	(1,151)
Gross profit	**599**	379	856
Administrative expenses	**(3,133)**	(2,006)	(4,649)
Loss from operating activities	**(2,534)**	(1,678)	(3,775)
Adjusted loss from operating activities	**(2,157)**	(1,629)	(3,680)
Exceptional expenses	**(347)**	-	-
Expenses relating to share options	**(30)**	(49)	(95)
Loss from operating activities	**(2,534)**	(1,678)	(3,775)
Interest payable	**(4)**	(2)	(10)
Finance income	**181**	16	28
Interest receivable	**-**	-	-
Loss before taxation	**(2,357)**	(1,664)	(3,775)
Taxation	**136**	-	-
Total comprehensive (loss)/income for the period	**(2,221)**	(1,664)	(3,775)
Profit / (loss) per share expressed in pence			

Basic	**(5.22)**	(5.27)	(10.45)
Diluted	**(4.74)**	(4.78)	(9.58)

Consolidated statement of financial position

as at 31 December 2018

	31 December 2018 £'000 (unaudited)	31 December 2017 £'000 Restated for IFRS 15 (unaudited)	30 June 2018 £'000 Restated for IFRS 15 (unaudited)
Assets			
Non-current assets			
Plant & Equipment	**84**	99	97
Intangible assets	**1,010**	722	844
Loan note receivable	**-**	1,271	1,206
Other receivables	**150**	44	74
Non-current assets	**1,244**	2,136	2,221
Current assets			
Trade and other receivables	**2,121**	462	772
Loan note receivable	**-**	908	908
Cash and cash equivalents	**3,537**	1,102	3,748
Current assets	**5,658**	2,472	5,428
Total assets	**6,902**	4,608	7,649
Liabilities			
Current liabilities			
Trade and other payables	**(1,026)**	(505)	(711)
Deferred Income	**(1,823)**	(421)	(703)
Other interest-bearing loans and borrowings	**-**	-	-
Current liabilities	**(2,849)**	(926)	(1,414)
Non-current liabilities			
Long term borrowings	**-**	-	-
Deferred income	**(511)**	(415)	(428)
Total liabilities	**(3,360)**	(1,341)	(1,842)
Net assets	**3,542**	3,267	5,807
Shareholders' equity			
Share capital	**427**	317	427
Share premium	**4,618**	89	4,618
Other reserve	**129**	54	99
Currency reserve	**(105)**	2	(31)
Profit & loss account	**(1,527)**	2,805	694
Total shareholders' equity	**3,542**	3,267	5,807

Consolidated interim statement of changes in equity

as at 31 December 2018 (unaudited and restated)

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Currency reserve £'000	Total shareholders' equity £'000
Balance at 1 July 2017	317	89	4	5,014	-	5,424
Restatement (IFRS 15)	-	-	-	(545)	-	(585)
Total comprehensive expense for the period	-	-	-	(1,664)	-	(1,664)
Retranslation of foreign assets	-	-	-	-	2	2
Share based payment charge	-	-	50	-	-	50
Dividend paid	-	-	-	-	-	-
Balance as at 31 December 2017	317	89	54	2,805	2	3,267
Balance as at 1 January 2018	317	89	54	2,805	2	3,267
Total comprehensive expense for the period	-	-	-	(2,111)	-	(2,111)

New shares issued net of costs	110	4,529	-	-	-	4,639
Retranslation of foreign assets	-	-	-	-	(33)	(33)
Share based payment charge	-	-	45	-	-	45
Dividend paid	-	-	-	-	-	-
Balance at 30 June 2018	427	4,618	99	694	(31)	5,807
Balance at 1 July 2018	427	4,618	99	694	(31)	5,807
Total comprehensive income for the period	-	-	-	(2,221)	-	(2,221)
New shares issued net of costs	-	-	-	-	-	-
Retranslation of foreign assets	-	-	-	-	(74)	(74)
Share based payment charge	-	-	30	-	-	30
Dividend paid	-	-	-	-	-	-
Balance at 31 December 2018	**427**	**4,618**	**129**	**(1,527)**	**(105)**	**3,542**

Consolidated statement of cash flows

for the six months ended 31 December 2018

	Six months ended 31 December 2018 £'000 (unaudited)	Six months ended 31 December 2017 £'000 Restated for IFRS 15 (unaudited)	Twelve months ended 30 June 2018 £'000 Restated for IFRS 15 (unaudited)
Cash flows from operating activities			
(Loss)/Profit after taxation	**(2,221)**	(1,664)	(3,775)
Adjustments for:			
Depreciation and amortisation	**119**	46	54
Interest income	**(181)**	(14)	(28)
Interest expense	**-**	-	-
Retranslation of foreign assets	**(73)**	2	(31)
Other non-cash charges	**-**	(3)	-
Share based payments	**30**	50	95
Decrease(increase) in trade & other receivables	**(1,446)**	129	(197)
Increase/(decrease) in trade &other payables	**1,539**	(115)	375
Cash used in operating activities	**(2,233)**	(1,568)	(3,410)
Dividend paid	**-**	-	-
Income taxes received	**-**	-	-
Interest paid	**-**	-	-
Net cash used in operating activities	**(2,233)**	(1,568)	(3,410)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(15)**	(20)	(42)
Development expenditure capitalised	**(258)**	(251)	(456)
Receipt of acquisition loan notes	**2,114**	969	1,032
Interest received	**181**	14	28
Net cash generated in investing activities	**2,022**	712	562
Cash flows from financing activities			
Repayment of borrowings	**-**	-	-
Issue of shares - net of cost of issue	**-**	-	4,638
Net cash (used) in financing activities	**-**	-	4,638
Net (decrease)/increase in cash	**(211)**	(856)	1,790
Cash and cash equivalents at the start of the period	**3,748**	1,958	1,958
Net (decrease)/increase in cash	**(211)**	(856)	1,790
Cash and cash equivalents at the end of the period	**3,537**	1,102	3,748

Notes to the interim financial statements for the six months ended 31 December 2017

1. Nature of activities and general information

PCI-PAL PLC is the Group's ultimate parent company and is a public limited company domiciled in England and Wales (registration number 3869545). The company's registered office is Unit 7, Gamma Terrace, Ransomes Europark, Ipswich, Suffolk IP3 9FF. The Company's ordinary shares are traded on the AIM Market of the London Stock Exchange. The Group's consolidated interim financial statements (the "interim financial statements") for the period ended 31 December 2018 comprise the Company and its subsidiaries (the "Group").

The Company operates principally as a holding company. The main subsidiaries are engaged in the provision of services that enable customers to securely take card payments over the phone to de-risk their business activities from the threat of data loss and cybercrime. PCI Pal is a cloud-based solution.

The interim financial statements are presented in pounds sterling (£000), which is also the functional currency of the parent company.

2. Basis of preparation

These consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and on a historical basis, using the accounting policies which are consistent with those set out in the Group's annual report and accounts for the year ended 30 June 2018.

The unaudited interim financial information for the period ended 31 December 2018 does not constitute statutory accounts within the meaning of Section 435 of the Companies Act 2006. The comparative figures for the year ended 30 June 2017 are extracted from the statutory financial statements which have been filed with the Registrar of Companies and contain an unqualified audit report and did not contain statements under Section 498 to 502 of the Companies Act 2006.

3. Significant Accounting Policies

The accounting policies of the Group have been updated to reflect the adoption of IFRS 15 and are disclosed in Note 8. All other accounting polices applied are consistent with those of the annual financial statements for the year ended 30 June 2018, as described in those financial statements.

4. Dividends

Given the strategic growth plans of the Group it is not proposed to declare a dividend for the period (2017: nil pence)

5. Analysis of results

The first half performance of the Group can be further analysed as follows:

	H1 FY 2019 EMEA £000s	H1 FY 2019 North America £000s	H1 FY 2019 Central £000s	**H1 FY 2019 Total £000s**	H1 FY 2018 EMEA £000s	H1 FY 2018 North America £000s	H1 FY 2018 Central £000s	**H1 FY 2018 Total £000s**
Revenue								
Recurring Fees	983	2	-	**985**	799	-	-	**799**
One-time Professional Services (1)	161	9	-	**170**	103	-	-	**103**
One-time Hardware Sales	5	-	-	**5**	2	-	-	**2**
Other	15	-	-	**15**	15	-	-	**15**
Total	**1,164**	**11**	**-**	**1,175**	**919**	**-**	**-**	**919**
Gross Profit	**588**	**11**	**-**	**599**	**379**	**-**	**-**	**379**
Margin %	51%	100%		**51%**	41%	-	-	**41%**
Administrative Expenses	(1,155)	(1,404)	(574)	**(3,132)**	(1,324)	(244)	(489)	**(2,057)**
Loss from Operating Activities	**(567)**	**(1,393)**	**(574)**	**(2,534)**	**(945)**	**(244)**	**(489)**	**(1,678)**
Interest payable	(1)	(2)	(1)	**(4)**	(1)	(1)	**-**	**(2)**
Finance Income	-	-	181	**181**	-	-	16	**16**
Loss before Taxation	**(568)**	**(1,395)**	**(394)**	**(2,357)**	**(946)**	**(245)**	**(473)**	**(1,664)**

(1) One-time Professional Services represents the amortisation of set up fees and other professional services income deferred under IFRS 15

6. Underlying financial performance analysis

The underlying financial performance of the Group can be measured as follows:

	H1 FY 2019 EMEA £000s	H1 FY 2019 North America £000s	H1 FY 2019 Central £000s	**H1 FY 2019 Total £000s**	H1 FY 2018 EMEA £000s	H1 FY 2018 North America £000s	H1 FY 2018 Central £000s	**H1 FY 2018 Total £000s**
Loss before Taxation	(568)	(1,395)	(393)	**(2,357)**	(946)	(245)	(473)	**(1,664)**
Adjust for:								
Exceptional Costs	**-**	94	253	**347**	-	-	-	**-**
Expenses relating to share options	-	-	30	**30**	-	-	49	**49**
Interest Payable	1	2	1	**4**	1	1	**-**	**2**
Finance Income	-	-	(181)	**(181)**	-	-	(16)	**(16)**

Adjusted Loss from Operating Activities	**(567)**	**(1,299)**	**(290)**	**(2,157)**	**(945)**	**(244)**	**(440)**	**(1,629)**
Depreciation & Amortisation	119	-	-	**119**	45	-	-	**45**
Adjusted EBITDA	**(448)**	**(1,299)**	**(290)**	**(2,038)**	**(900)**	**(244)**	**(440)**	**(1,584)**

7. Earnings per share

The basic and diluted earnings per share are calculated on the following profit and number of shares. Earnings for the calculation of earnings per share is the net profit attributable to equity holders of the parent.

	Six months ended 31 December 2018 £000	Six months ended 31 December 2017 £000	Twelve months ended 30 June 2018 £000
Earnings for the purposes of basic and diluted earnings per share			
Loss after taxation - restated	**(2,221)**	(1,664)	(3,775)
Denominator	**'000**	'000	'000
Weighted average number of shares in issue in the period	**42,554**	31,554	36,137
Dilutive effect of potential shares and share options	**4,279**	3,268	3,279
Number of shares used in calculating diluted earnings per share	**46.833**	34,822	39,416
Basic earnings per share expressed in pence	**(5.22)**	(5.27)	(10.45)
Diluted Earnings per share expressed in pence	**(4.74)**	(4.78)	(9.58)

8. Changes in accounting policies

As a result of the changes in the entity's accounting policies, prior year financial statements have had to be restated.

IFRS 9 *Financial Instruments* was adopted on 1 July 2018 and has been implemented without restating comparative information, on the grounds of materiality.

IFRS 15 *Revenue from Contracts with Customers* was adopted on 1 July 2018 and the prior year financial statements have been restated. The tables below show the adjustments recognised for each individual line item for the periods ending 31 December 2017 and 30 June 2018.

The adjustments for the six months to 31 December 2017 are explained in more detail below.

Consolidated statement of comprehensive income for the six months ended 31 December 2017	As originally presented £'000	Adjustment IFRS 15 £'000	Restated six months ended 31 December 2017 £'000
Continuing operations			
Revenue	1,000	(81)	919
Cost of sales	(540)	-	(540)
Gross profit	460	(82)	378
Administrative expenses	(2,098)	42	(2,056)
Loss from operating activities	(1,638)	(40)	(1,678)
Interest payable	(2)	-	(2)
Finance income	16	-	16
Interest receivable	-	-	-
Loss before taxation	(1,624)	(40)	(1,664)
Taxation	-	-	-
Loss for period from continuing activities	(1,624)	(40)	(1,664)
Profit for period from discontinued activities	-	-	-
Total comprehensive (loss)/income for the period	(1,624)	(40)	(1,664)

Profit / (loss) per share expressed in pence			
Basic	(5.15)	(0.12)	(5.27)
Diluted	(4.66)	(0.12)	(4.78)

Consolidated statement of financial position as at 31 December 2017	As originally presented	Adjustment IFRS 15	Restated six months ended 31 December

	£'000	£'000	2017 £'000
Assets			
Non-current assets			
Plant & Equipment	99	-	99
Intangible assets	722	-	722
Loan note receivable	1,271	-	1,271
Other receivables	-	44	44
Non-current assets	2,092	44	2,136
Current assets			
Trade and other receivables	425	37	462
Loan note receivable	908	-	908
Cash and cash equivalents	1,102	-	1,102
Current assets	2,435	37	2,472
Total assets	4,527	81	4,608
Liabilities			
Current liabilities			
Trade and other payables	(505)	-	(505)
Deferred income	(170)	(251)	(421)
Other interest-bearing loans and borrowings	-	-	-
Current liabilities	(675)	(251)	(926)

Consolidated statement of financial position as at 31 December 2017	As originally presented £'000	Adjustment IFRS 15 £'000	Restated six months ended 31 December 2017 £'000
Non-current liabilities			
Long term borrowings	-	-	-
Deferred income	-	(415)	(415)
Total liabilities	(675)	(666)	(1,341)
Net assets	3,852	(585)	3,267
Shareholders' equity			
Share capital	317	-	317
Share premium	89	-	89
Other reserve	54	-	54
Currency reserve	2	-	2
Profit & loss account	3,390	(585)	2,805
Total shareholders' equity	3,852	(585)	3,267

The adjustments for the twelve months to 30 June 2018 are as follows:

Consolidated statement of comprehensive income for the twelve months to 30 June 2018	As originally presented £'000	Adjustment IFRS 15 £'000	Restated twelve months ended 30 June 2018 £'000
Continuing operations			
Revenue	2,136	(129)	2,007
Cost of sales	(1,151)	-	(1,151)
Gross profit	985	(129)	856
Administrative expenses	(4,747)	98	(4,649)
Loss from operating activities	(3,762)	(31)	(3,793)
Interest payable	(10)	-	(10)
Finance income	28	-	28
Interest receivable	-	-	-
Loss before taxation	(3,744)	(31)	(3,775)
Taxation	-	-	-
Loss for period from continuing activities	(3,744)	(31)	(3,775)
Profit for period from discontinued activities	-	-	-
Total comprehensive (loss)/income for the period	(3,744)	(31)	(3,775)
Profit / (loss) per share expressed in pence			
Basic	(10.36)	(0.09)	(10.45)
Diluted	(9.51)	(0.07)	(9.58)

Consolidated statement of financial position as at 30 June 2018	As originally presented	Adjustment IFRS 15	Restated twelve months ended 30 June 2018

	£'000	£'000	£'000
Assets			
Non-current assets			
Plant & Equipment	97	-	97
Intangible assets	844	-	844
Loan note receivable	1,206	-	1,206
Other receivables	-	74	74
Non-current assets	2,147	74	2,221
Current assets			
Trade and other receivables	708	64	772
Loan note receivable	908	-	908
Cash and cash equivalents	3,748	-	3,748
Current assets	5,364	64	5,428
Total assets	7,511	138	7,649
Liabilities			
Current liabilities			
Trade and other payables	(711)	-	(711)
Deferred income	(417)	(286)	(703)
Other interest-bearing loans and borrowings	-	-	-
Current liabilities	(1,128)	(286)	(1,414)
Non-current liabilities			
Long term borrowings	-	-	-
Deferred income	-	(428)	(428)
Total liabilities	(1,128)	(714)	(1,842)
Net assets	6,383	(576)	5,807
Shareholders' equity			
Share capital	427	-	427
Share premium	4,618	-	4,618
Other reserve	99	-	99
Currency reserve	(31)	-	(31)
Profit & loss account	1,270	(576)	694
Total shareholders' equity	6,383	(576)	5,807

IFRS 15 - *Revenue from Contracts with Customers* - Impact of adoption

The Group has adopted IFRS 15 from 1 July 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the group has adopted the new rules retrospectively and has restated comparatives both for the 2018 financial year and the opening balance sheet. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 July 2018).

(i) Revenue

From 1 July 2017 all set-up, professional service and installation fees for our PCI compliance solutions and our hosted telephony services previously recognised in revenue during the implementation phase of the client projects have been restated under IFRS 15. These fees will now be deferred into deferred revenue and held in the balance sheet and will be released to the statement of comprehensive income over the estimated term of the contract up to a maximum of four years.

In addition, the opening balance sheet has been restated for contracts where fees have been recognised in revenue prior to 1 July 2017.

The net impact of this restatement is a reduction in previously reported revenue of £0.082 million for the 6 month period to 31 December 2017 and £0.129 million for the 12 month period to 30 June 2018.

The total deferred income liability restated at 31 December 2017 is £0.666 million and at 30 June 2018 is £0.714 million.

There have been no adjustments made to revenue for the sale of third-party equipment.

(ii) Commission costs (administrative expenses)

Commission paid to members of the sale team for the signing of specific contracts has been deferred onto the balance sheet and held in other current assets and will be matched to the revenue over the minimum period of the contract term.

In addition, the opening balance sheet has been restated for contracts where commission has been charged as an administrative expense prior to 1 July 2017.

Net commission costs of £0.032 million for the 6 month period to 31 December 2017 and £0.089 million for the 12 month period to 30 June 2018 have been capitalised into other receivable assets.

IFRS 15 - *Revenue from Contracts with Customers - Accounting policies*

IFRS 15 provides a single, principles-based five-step model to be applied to all sales contracts, based on the transfer of control of goods and services to customers. Revenue represents the fair value of the sale of goods and services and after eliminating sales within the Group and excluding value added tax or overseas sales taxes. The following summarises the method of recognising revenue for the solutions and products delivered by the Group.

(i) PCI compliance solutions

Revenue for set-up and cloud provision fee will be deferred and will be recognised evenly over the estimated term of the contract, having accounted for the automatic auto-renewal of our contracts, up to a maximum of four years, starting the month following from the date of signature of the underlying contract.

Revenue for all other professional services and installation fees will be deferred and will be recognised evenly over the estimated term of the contract, having accounted for the automatic auto-renewal of our contracts, up to a maximum of four years, starting in the month following the hand over to the client for user acceptance testing.

Third-party costs directly attributable to the delivery of the PCI compliance solutions will be capitalised as 'costs to fulfil a contract' and released over the estimated term of the contract, having accounted for the automatic auto-renewal of our contracts, up to a maximum of four years, starting the month following from the date of signature of the underlying contract.

Costs relating to commissions paid to employees for winning the contract will be capitalised as 'costs to fulfil a contract' at the date the commissions payments became due and will be released in monthly increments over the minimum contract term starting the month following the date the cost was capitalised.

(ii) Contract modifications

Where contract modifications take place, consideration is given as to whether these are services that are distinct from the original contract. Where they are treated as a continuation of the original contract the revenue will be deferred and amortised over the remaining term of the original estimate term of the contract.

(iii) Third party equipment sales

Where the contract involves the sale of third-party equipment that could be acquired and supplied by other parties to the client the revenues and costs relating to this will continue to be released in full to the Statement of Comprehensive Income at the time the installation is complete.

IFRS 9 - *Financial Instruments - Accounting policies*

The Group does not enter into forward contracts to hedge forecast transactions and so there is no requirement to restate the previous financial statements.

9. Subsequent events to 31 December 2018

There are no subsequent events to disclose.

END

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