Half-year Report

PCI-PAL PLC

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*This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014 ("**MAR**"). Upon the publication of this announcement, the inside information is now considered to be in the public domain for the purposes of MAR.*

PCI-PAL PLC

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

Interim Results for the Six Months Ended 31 December 2019

PCI-PAL PLC (AIM: PCIP), the global provider of secure payment solutions, is pleased to announce its unaudited interim results for the six months to 31 December 2019.

Financial Highlights for the Period

- Revenue increased 74% year on year to £2.0 million (2018: £1.2 million)
- Gross margin improved to 67% (2018: 51%)
- Recurring revenues represent 85% of total revenue (2018: 84%)
- New contract annual recurring licence sales ("ACV") of £1.2 million (2018: £1.3 million)
- TACV[1] now stands at £5.2 million (2018: £3.4 million) reflecting a 53% increase year on year
- Loss from operating activities of £2.3 million (2018: £2.5 million)
- Cash of £1.5 million (30 June 2019: £1.5 million) and net debt of £0.02 million (30 June 2019: net cash £1.5 million)
- Deferred revenue of £4.0 million (2018: £2.3 million) at period end

1 TACV is the total annual recurring revenue of all signed contracts, whether invoiced and included in deferred revenue or still to be deployed and/or not yet invoiced

Strategic Highlights in period

- Recurring revenue model proven with record revenue growth year on year
- Stand-out six months for the North American business signing 49% more ACV than the entire previous financial year in the region
- Signed Group's second largest contract in the U.S. with ACV of $566,000 (approximately £434,000)
- 82% of new sales contracts for the Group generated from channel partners (2018: 75%)
- Customers live across all six global regional instances of our platform across EMEA, North America, and ANZ
- Won Partner of the Year for EMEA with Genesys AppFoundry
- New technology partnerships announced with Avaya and Cisco
- New Chairman appointed with significant international technology industry experience

Current Trading

Highlights since 31 December 2019 include:

- Timing of large contract wins and delivery of contracts contributing to a delay in anticipated revenue against market expectations for the year
- A contract win with a US subsidiary of a FTSE100, displacing a competitor's legacy hardware solution.
- Further competitor displacement at a new reseller, a leading Genesys Value Added Reseller ("VAR") in Ireland, which has included the partnership's first signed customer deal.
- Contract to provide PCI Pal Agent Assist to one of the world's leading technical standards agencies.
- Launched PCI Pal Digital, a secure payments offering for digital engagement channels including webchat, social media, SMS, email, and WhatsApp.

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

"I am pleased with the progress we have made in the first half of the financial year and can report continuing momentum in contracts being won as we enter the second half.

"We are now seeing the benefits of our SaaS-based revenue model coming through, with revenue increasing significantly year-on-year. This revenue growth is underpinned by our growth in TACV, a key growth metric illustrating the recurring nature of our revenue model. As a fast-growing, small technology company we are naturally facing challenges along the way, in particular around timing of new deals being signed and time to go live ("TTGL") with new contracts.

"These timing delays will have an adverse impact on our revenue for the current financial year against market expectations which will have a consequential effect on our losses before tax which will be slightly higher than current market expectations. Given our pipeline and our continued optimism in delivering against this pipeline in the second half of the current financial year, we are confident that our TACV at the year-end will put the Company in a strong position as we enter the next financial year.

"We will continue our focus on scaling our capabilities across people, process, and technology as we execute against our strategic objectives and maintain the strong growth of this business. We will capitalise on the partnerships we have put in place, as well as our true-cloud platform, and our unique position as the only company in our space capable of delivering all of this globally."

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About PCI Pal:

PCI Pal is a 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

During the period we made considerable progress against our stated objective to be the provider of choice for technology vendors globally seeking to secure their customers' payments in customer engagement environments. We have on-boarded a number of key partners who are all leading brands in the telecommunications and contact centre technology markets. We have the most advanced and established true-cloud platform in our market, having committed to cloud in October 2017. To date this platform has matured and now provides services to live customers across the globe utilising all of our six availability zones across multiple instances in EMEA, North America, and ANZ (Australia / New Zealand).

I am extremely pleased that revenues for the period were 74% greater than the prior year at £2.0 million (2018: £1.2 million), illustrating the benefits of our SaaS-based revenue and licensing model. Additionally, TACV[1] grew 53% year on year to £5.2 million at the end of H1 (2018: £3.4 million). TACV is a critically important metric for our business as it is the recurring annual value of contracts which are the building blocks towards future sustainability, cash generation, and profit.

We are delighted with the progress we are making against our strategy and the growth in our TACV through contracts won. In addition, our pipeline continues to strengthen, and we remain confident in our ability to deliver exciting new contracts in the second half of the current financial year.

Whilst our TACV continues to grow, we only start to recognise revenue once new contracts go live. As a result, in the current financial year the Group has been impacted by the timing of new contract sales as well as the TTGL of larger customer deployments which consequently has and will result in a delay in revenue being recognised in the current financial year. As such we are expecting revenue for this financial year to be behind market expectations with the loss of revenue partly offset by improved gross margins and operational cost savings. We are therefore also expecting our adjusted loss before tax to be marginally higher than current market expectations. Our growing recurring revenue base (TACV), plus the releases of setup and professional services fees from deferred income, act to illustrate the run rate achieved to date upon which we will continue to add further building blocks towards sustainability, cash generation, and profitability. Furthermore, given our pipeline and our continued optimism in delivering against this pipeline in the second half of the current financial year, we are confident that our TACV at the year-end will put the Company in a strong position as we enter the next financial year.

In the period under review, the Group signed new contract annual recurring licence fees ("ACV") of £1.2 million. This compares year on year to £1.3 million in H1 FY2019 which included, at the time, the Company's two largest contracts totaling £0.9 million alone. 82% of new sales contracts were sourced through partners; contributing 48% of the ACV value.

In the period we announced changes to the Board, with the appointment of Simon Wilson to the position of Chairman, succeeding Chris Fielding who remains on the Board as Senior Non-Executive Director and Chairman of the Audit Committee. Simon has held CEO, CFO, and Corporate Development roles at a range of U.S. and U.K. B2B software companies, including CFO of Surf Control PLC, the LSE-listed internet security company which was acquired by Websense (NASDAQ), as well as being a Board Director at Endace PLC (AIM), Chairman of M86 Security, and Audit Committee Chair at Workshare. Prior to this Simon was a partner in KPMG's U.S. Corporate Finance Practice, where he specialised in providing advice on corporate development strategy and M&A services to U.S. and international B2B software companies.

During the period, we have maintained our operational scaling focus on people, process, and technology as key factors to influence achievement of our strategic objectives of cloud, channel, and global expansion. I am very pleased to confirm that staff retention has remained high at over 95%, and we are excited by the new hires we have made in the period strengthening engineering and professional services with experienced, committed, and ambitious individuals aligned to our company culture and values.

[1] TACV is the total annual recurring revenue of all signed contracts, whether invoiced and included in deferred revenue or still to be deployed and/or not yet invoiced

Given its importance to the revenue growth of the company, a stringent focus on our TTGL was a key strategy when I became CEO. In the last two years we have built an enhanced and detailed understanding of the intricate mix of factors that can impact customer implementations, and we recognise that these can vary between our partner types, deployment models, as well as the varying size and complexity of customer environments within which we are delivering services across EMEA, North America, and ANZ. As we look to improve our TTGL, we have sought to deliver a number of process changes ranging from improved presales due diligence through to implementations and delivery capabilities. At present, TTGL is maintained at 4-7 months and we will continue to seek to improve this as we balance the range of contracts being won between the larger more complex enterprise deployments and some of the easier to deploy contracts (such as one new customer in the U.S. that went live in just four weeks).

We continue to receive excellent customer and partner feedback following the delivery of well-run, successful implementations. We produce and monitor Net Promoter Scores ("NPS")[2] from post go-live interaction with customers as a way of tracking our customers' perception, and to ensure we are maintaining high levels of satisfaction, which in turn allows us to utilise more customers as references with future new customer prospects. We finished the period with an NPS at 51% above the global average benchmark, which is classified as "excellent" on the NPS scale.

Cloud

As the only true-cloud provider with a global platform in our market, our services enable simple and light touch solutions for solving our customers' and partners' payment security challenges. Where our partners are cloud providers themselves, for instance CCaaS or UCaaS vendors or carriers, we carry out tight, repeatable integrations to be utilised across their entire customer-base; where our customers or partners are not integrated, we provide easy-to-use options by which our services can be accessed depending upon the telephony environment of these customers.

With customers live across all of our availability zones within AWS; UK, Ireland, Germany, U.S., Canada, and Australia, we have already proven our ability to deliver services across the globe whilst maintaining data sovereignty and regional handling of payment traffic across our platform. As the only cloud provider worldwide with this level of coverage, we have a competitive advantage contributing to our growing success in working with some of the worlds' leading technology vendors in the global cloud telephony space. The majority of these partners typically have three primary focus regions across EMEA, North America, and ANZ. Additionally, as evidenced by the enterprise customer contract win that was announced in December 2019, we are seeing trends in our sales pipelines of organisations with large contact centres seeking out cloud solutions directly from us, and therefore not necessarily leveraging our partners to solve their payment security challenges.

Having proven our ability to scale our platform globally at pace, we have given significant focus to continual improvement and achievement of excellence around the platform's resilience, reliability, and stability in the first half of this year. Additionally, we have begun to re-define the productisation of our delivery models (i.e., how users connect to our services), where possible moving away from customised delivery to standardised, easy-to-understand consumption models for partners and customers alike. Accessibility of our cloud services is a key component to reducing friction of TTGL as well as shortening the time between signing, delivery, and revenue recognition.

We recognise that we have differing levels of technical integration depth across our partners, with the integrated CCaaS and UCaaS vendors benefitting from the highest levels of repeatability; so we are ensuring, for all customers and partners whether integrated or not, that the way we implement our services can be clearly understood during presale to facilitate effective and efficient deployment. We will continue to refine and improve the productisation of our services to fully capitalise commercially on the benefits of cloud usability.

[2] NPS is an index ranging from -100 to 100 that measures the willingness of customers to recommend a company's products or services to others. The higher the number the better the perception the customer has of the service. It is used at gauging the customer's overall satisfaction and loyalty to a brand

North America

We are pleased with our performance in our second full year of trading in North America, with new contract licence ACV for the period in-line with management expectations at £0.7 million, 60% higher than £0.4 million for the prior full financial year. Significantly contributing to this year-on-year growth was the win of the Company's second largest contract ever, through a competitive tender process, on a three-year term announced in December 2019 with a recurring ACV of $566,000 (approximately £434,000). We have already received the first annual licence fee for this contract and we expect to invoice years two and three when further project milestones are met this year. Other sales highlights include a further contract through Paymetric in the U.S. with a Fortune 100 pharmaceutical company.

The TACV of contracted business in North America is 245% greater than the prior year at £1.1 million (2018: £0.3 million). The North American business accounted for 7% (2018: 1%) of Group revenues in the period and we expect this momentum to continue to grow as revenue recognition from increasing new sales ACV comes through.

Having established reseller channel partnerships with market leading vendors headquartered in the region, including 8x8, Talkdesk, Vonage, Paymetric, Bell Canada, and Genesys, we have focused significantly on the completion of on-boarding of all of these relationships whether entirely new, or expansions into new territories within those organisations all of whom have businesses outside of North America. The majority of our partners are much larger organisations than us, and as such in order to maximise these relationships we invest significant time and effort to not only integrate technically, but crucially to integrate commercially; product, presales, sales, and marketing. It is this depth of interaction that will ultimately drive volume growth in sales pipelines. I am pleased to report that the majority of major partners announced to date have been on-boarded fully and are now beginning to produce increased volume to our sales pipelines going into H2 FY2020. In H1 80% of new contracts in North America were generated from channel partners.

In addition to reseller partnerships, we have added two key technical partnerships with two of the most prominent traditional telephony vendors in the world, both headquartered in the U.S.; Avaya and Cisco. We have been selected by Avaya for membership as a Technology Partner in their DevConnect Program; and, since the half year end, Cisco have selected us as a Preferred Solution Partner as well as achieving certification for compatibility with their various platforms. These technical partnerships are key in underlining our credibility within both organisations reseller communities, anywhere in the world, as well as with direct enterprise customer prospects utilising their platforms and services.

We continue to see low levels of competition in North America and in parallel we believe that in our space our brand is fast becoming the most well-known. This is due to our concerted efforts to assert ourselves as thought leaders, not only directly, but also in collaboration with partners who are more established in the region. For example, by producing interesting and relevant content for the market such as our "This is" campaign run across North America, EMEA, and ANZ (https://www.pcipal.com/en/knowledge-centre/ebooks/world-state-of-security-eyes-of-global-consumers/). These efforts are substantiated by our leading position as the brand receiving the highest Share of Voice ("SOV") in the market (currently we are receiving over 65% SOV against our competitors), a key marketing metric for our business.

We have continued to run the ANZ region out of the United States due to the beneficial time zone overlap. Having been pulled towards the region by existing partners, and activating the Sydney instance of our platform, we have successfully implemented in the period two significant accounts; Queensland State Government and News Corp Australia. During the period we have also signed a reseller partnership with the second largest Genesys VAR in the region, a partnership that is due to be launched in H2. We continue to see this initial progress in ANZ as important early foundational activity for further growth in the region.

EMEA

The UK-based EMEA business has seen a significant step forward in terms of revenue for the period at £1.9 million revenue, a 63% increase year on year (2018: £1.2 million). Recurring revenues accounted for 86% of revenue in the period illustrating the strength of the SaaS-based revenue model.

With the majority of new contract sales generated with partners and customers in the UK, the EMEA business signed £0.5 million of new contract licence ACV in the period, which compares favourably with the prior year figure of £1.0m considering it included the company's largest contract ever signed at £0.63m. Whilst new sales in the period for the EMEA region were behind management expectations, due to the timing of signing of certain new contracts, we do anticipate closing these deals in H2.

During the period sales highlights included a further contract through our reseller relationship with Capita Pay 360 with a FTSE250 retailer, delivering our services into their contact centres in the UK and South Africa. In addition, since the end of H1, we have been successful in signing a new reseller based in Ireland. The reseller is a leading Genesys VAR who had historically worked with a competitor.

The UK market does have higher levels of competition in our space, with several vendors having invested earlier than PCI Pal prior to 2016. As a result, we had found that a number of key regional prospect partners had already adopted competitor solutions, including legacy hardware technology. We have found however that due to our strengthened brand positioning (we have the greatest Share of Voice of brand in our space in the region); the growing recognition of our market leading cloud capabilities; and our commitment to channel, that these prospect partners are engaging with us as they look to the market for more modern, suitable solutions than those they may have procured some years earlier. This positive shift is evidenced with the signing of a new reseller in the period, a leading Genesys VAR headquartered in Ireland, which has also resulted in the partnership's first signed customer deal. This new partner had historically worked with one of our competitors and selected us for our commitment to channel and our ability to provide true cloud, easy-to-deploy services.

Channel Partners

After a foundational year in FY2019 of establishing key partnerships, we continue to see new sales contracts sourced by majority from channel partners with 82% of contracts won in the period generated from channel. The channel strategy is a long-term focus for the business to establish higher volume sales pipelines and establish our position as the leading provider to technology vendors globally who wish to provide secure payment services to their own customers.

We started the year with the announcement that we had been awarded EMEA Partner of the Year for Genesys AppFoundry. This was as a result of our work with them in securing their first resold PCI Pal deal, to a FTSE 100 company currently being rolled out across the UK and US. This award, and highlight customer win, has led to increased cooperation within Genesys, and whilst commercial relationships with large partners such as this take time to nurture and develop, we are now seeing progress as a result of the time investment and commitment we have shown to them and this strategy. This includes the signing of a leading Genesys VAR reseller in Ireland, including our first customer win through the partnership.

With contracted partnerships including some of the best known names in the contact centre telephony space, as well as a select group of payment provider partners and telco's, we have focused much of our effort in the period on enablement of those relationships. The PCI Pal Partner program was launched in February 2019 and was created to ensure that both ourselves and our partners are able to capitalise on our commercial engagement. As well as technical integration, we go through extensive commercial on-boarding with partners ranging from presales and sales interaction, to product management and ultimately delivery of projects.

We categorise our partners into three groups:

- Integrated Partners - Such as CCaas, UCaaS or carrier partners with tight telephony, and sometimes desktop, integrations. Repeatable integrations facilitating shorter project delivery times.
- Solution Providers - Typically Value-Added Resellers ("VARs") or Systems Integrators of the major telephony platforms such as Genesys, Cisco, Avaya, Mitel. Solution Providers also include payment service providers such as Paymetric or Civica.
- Referral Partners - Partners who introduce customers to us, to whom we then sell direct. These include Master Agents, as well as other organisations who may prefer to first introduce, prior to becoming a fully enabled reseller.

Whilst our view of Integrated Partners and Solutions Providers has remained relatively unchanged in the last 12 months, we have identified a new subset of partners within the Referral Partners section. Technology partnerships are available with some of the largest telephony platform vendors who have a preference to work through an application exchange or marketplace environment over any dedicated reseller arrangements. Effectively their marketplace allows their customers to find you and these leads would be classed as referrals. We have seen this with several of the more traditional vendors, such as Avaya and Cisco, and more recently with inContact (an existing referral partner) and Five9. Whilst important to be a part of these communities, they do not produce the same level of volume or interaction that can be achieved through a fully on-boarded reseller partner. We are therefore careful to allocate resources accordingly, while being mindful that closer relationships can be built with their VAR reseller community.

As we grow and continue to gain more experience of these different partner-types, so we have improved our experience of how these organisations function. As a result of this we are continually reviewing our channel strategy and time-spend in order to hone our efforts to working with those that will produce the strongest results. Particularly due to the success of signing new partners in FY2019, we are currently ensuring that we fully enable those partners as a resource priority.

Operations

We are extremely pleased that our reorganisation of engineering and professional services has been a success since changes were made 12 months ago.

We set out a key strategic focus on people, process, and technology and have continued to build on this operationally. We have maintained high staff retention as well as adding people in key areas. In particular we have continued to invest in engineering and professional services adding several new heads covering telephony deployments, as well as a Head of Development reporting to the CTO. We have also begun to expand our current engineering and professional services resources in the U.S. as a result of increasing customer deployments in the region.

The steps we have taken to add further expertise to our talented engineering and professional services teams, as well as improvements to process and, more generally, our increasing experience dealing with enterprise partners and customers, has been evidenced very recently in the enterprise deal announced in the U.S. in December 2019. This customer win followed not only a competitive tender process, but also a competitive Proof of Concept ("POC") where we understand we competed against one of our major competitors to deliver our Agent Assist solution. It was following this POC process that we were awarded the contract. Having now successfully delivered integration projects with numerous enterprise partners and customers, we take great confidence in our professional services abilities underpinned by our technology and operational processes.

Underpinning everything that we do is the security of our services and platform. In the period we achieved certification for the eighth year running against the current version of the Payment Card Industry Data Security Standards (PCI DSS). This certification testifies that PCI Pal is the highest level of security required under PCI DSS and, as a Service Provider, can therefore handle payment data for any size organisation ("merchant") across the globe. In addition, we continue to maintain a variety of ISO standards including 27001, 22301, 9001, and 14001.

Since the period end, we have announced the launch of PCI Pal Digital, our secure payments offering for digital engagement channels including webchat, social media, SMS, email, and WhatsApp. Developed in-house and delivered from the same platform as our Agent Assist and IVR services, they combine to provide our partners and customers with a true omni-channel offering within which payments can be secured in any customer experience interaction.

Current Trading and Outlook

Following strong revenue growth in H1, I can report that the second half of the year has started well with a strong pipeline to close out the year well. We anticipate the Group being close to management expectations for new business sales bookings for the full year which will set us up for another year of significant revenue growth in FY2021.

As noted above, as a fast-growing, small technology company we are naturally facing new challenges along the way, in particular around the timing of new deals being signed and TTGL with new contracts. As a result of these timing delays we do expect our revenue for the current financial year to be behind market expectations which will have a consequential effect on our losses before tax which will be slightly higher than market expectations.

We have invested significant time and effort into enabling key partners in H1, and we are excited by the contribution they will make in the next reporting period and FY2021. Additionally, we expect to expand our exposure to direct-sale enterprise opportunities generated into our sales pipelines. Given our pipeline and our continued optimism in delivering against this pipeline in the second half of the current financial year, we are confident that our TACV at the year-end will put the Company in a strong position as we enter the next financial year.

Since the end of the period we have had success in deploying our displacement strategy of competitors with prospective target channel partners in EMEA, having signed a major Genesys VAR in Ireland who had previously worked with one of our competitors. Added to this, we have also displaced a competitor at a U.S. subsidiary of a FTSE 100, as well as winning a new contract with a world-renowned technology standards agency for their own use of PCI Pal Agent Assist. With the launch of our PCI Pal Digital solution, we believe we are well positioned with our global cloud model to further strengthen our position as the go-to provider to technology companies seeking to solve their customers' payment security challenges globally.

James Barham
Chief Executive Officer
4 March 2020

CFO's Financial Review

Revenue for the period grew by 74% to £2.0 million, underpinned by a 76% increase in recurring revenue, which accounted for 85% (2018: 84%) of all revenue in the Group. The growth in revenue has been driven by deployment of new contract wins on our true cloud AWS platform, which has a much lower cost base that our first-generation platform. As a result, our gross margin has improved from 51% to 67%. The improved revenue performance and improved margin means that overall the gross profit for the Group has grown 130% to £1.4 million in the period.

The Group has continued to invest in the core elements of the business. As a result, administrative expenses have grown from £3.1 million to £3.7 million. Headcount now stands at 55 employees (2018: 46), employee related costs equate to 77% (2018: 72%) of administrative expenses. Overall the loss from operating activities were 10% lower at £2.3 million (2018: £2.5 million), while the loss before tax is £2.3 million (2018: £2.4 million).

In the period the Group incurred an exchange loss in the profit and loss of £0.2 million (2018: gain of £0.1 million) and also paid £0.05 million in interest costs (2018: receipt of £0.2 million). The regional operating results and underlying analysis used within the Group are shown in Notes 5 & 6.

The Group TACV now stands at £5.2 million (30 June 2019: £4.0 million) reflecting the successful continual sales of our services based upon recurring annual licence contracts. Of the £5.2 million, £3.4 million is linked to contracts that have been deployed and so are generating revenue, with £1.4 million linked to contracts that are in the process of actively being deployed and so are not generating recurring revenue yet. The remaining £0.4 million of contracts are on hold either pending additional customer resource availability or our service is a second/later phase of a larger delivery project being run by our partners.

Our customer retention rates continue to be exceptionally high. However, we expect in any one year to lose up to 5% per annum of our contracted TACV through, for example, customers changing their requirements post-sale and therefore requiring re-scoping; customers ceasing to use our services as they have moved from our partner; or customers going into receivership. In the period to date we have lost approximately £0.1 million in TACV, the majority of which have been caused by customers changing their requirements. Therefore, we are working with those customers to re-scope and effectively re-sell the services, at which point their value would be incorporated back into TACV.

In the six-month period to December 2019, the Group, as part of its standard contract negotiations, invoiced £0.6 million (2018: £0.6 million) of set-up and professional services fees. These fees are invoiced on the signature of the contracts and are generally released to revenue over a 48-month period once the full service has been deployed. These advance invoices make up part of the deferred income of the Group but are not treated as recurring revenue for metric reporting purposes.

Deferred income stood at £4.0 million (2018: £2.3 million) reflecting the continuing success of the Group in deploying its SaaS model and advance billing our customers accordingly for set up and professional service fees, as well as annual licences where contractually agreed.

Trade debtors stood at £1.8 million (2018: £1.7 million) and on average we are taking just over two months to collect payment from our customers.

The Group finished the period with cash of £1.5 million (30 June 2019: £1.5 million) following the receipt of £1.5 million of bank loans during the period. Net debt stood at £0.02 million (30 June 2019: cash of £1.5 million) with a further £1.25 million of facilities available to draw up to October 2020. Our future cash position will be boosted by the large US contract announced on the 19th December where the customer has agreed to pay its three-year licence and set up fees in advance. The first tranche of this payment, which includes set up and year one licence, was received in January 2020. The remaining two years' licences will be invoiced when agreed delivery project milestones have been met and is expected to be later this year.

Finally, the Group has adopted IFRS 16: *'Leases'* from 1 July 2019. Right of use assets will be measured on transition as if the new rules had always applied. The Group has taken advantage of the practical expedients available for transition under the standard. Note 1 sets out the new accounting policy and summarises the impact of the implementation of IFRS 16: *'Leases'*, the impact to adjusted EBITDA and depreciation being £0.04 million for this financial year and £0.02 million for the first half. There is no impact to loss after tax.

William Good
Chief Financial Officer
4 March 2020

Consolidated statement of comprehensive income

for the six months ended 31 December 2019

	Six months ended 31 December 2019 £'000 (unaudited)	Six months ended 31 December 2018 £'000 (unaudited)	Twelve months ended 30 June 2019 £'000 (audited)
Continuing operations			
Revenue	**2,041**	1,175	2,817
Cost of sales	**(664)**	(576)	(1,119)
Gross profit	**1,377**	599	1,698
Administrative expenses	**(3,653)**	(3,133)	(6,373)
Loss from operating activities	**(2,276)**	(2,534)	(4,675)
Adjusted loss from operating activities	**(2,252)**	(2,157)	(4,232)
Exceptional expenses	**0**	(347)	(361)
Expenses relating to share options	**(24)**	(30)	(82)
Loss from operating activities	**(2,276)**	(2,534)	(4,675)
Bank charges and interest payable	**(49)**	(4)	(8)
Finance income	**-**	181	181
Interest receivable	**1**	-	-
Loss before taxation	**(2,324)**	(2,357)	(4,502)
Taxation	**221**	136	136
Total comprehensive loss for the period	**(2,103)**	(2,221)	(4,366)
Other comprehensive expense: items that will be classified subsequently to profit and loss			
Foreign exchange translation differences	**156**	(74)	(107)
Total comprehensive loss for the period	**(1,947)**	(2,295)	(4,473)
Loss per share expressed in pence			
Basic and diluted	**(4.94)**	(5.22)	(10.30)

Consolidated statement of financial position

as at 31 December 2019

	31 December 2019 £'000 (unaudited)	31 December 2018 £'000 (unaudited)	30 June 2019 £'000 (audited)
Assets			
Non-current assets			
Plant & Equipment	**102**	84	71
Intangible assets	**1,605**	1,010	1,300
Other receivables	**-**	150	-
Non-current assets	**1,707**	1,244	1,371
Current assets			
Trade and other receivables	**2,970**	2,121	1,999
Cash and cash equivalents	**1,478**	3,537	1,492

Current assets	**4,448**	5,658	3,491
Total assets	**6,155**	6,902	4,862
Liabilities			
Current liabilities			
Trade and other payables	**(1,159)**	(1,026)	(994)
Deferred Income	**(4,004)**	(2,334)	(2,453)
Other interest-bearing loans and borrowings	**(545)**	-	-
Current liabilities	**(5,708)**	(3,360)	(3,447)
Non-current liabilities			
Long term borrowings	**(955)**	-	-
Total liabilities	**(6,663)**	(3,360)	(3,447)
Net (liabilities)/assets	**(508)**	3,542	1,415
Shareholders' equity			
Share capital	**427**	427	427
Share premium	**4,618**	4,618	4,618
Other reserve	**205**	129	181
Currency reserve	**18**	(105)	(138)
Profit & loss account	**(5,776)**	(1,527)	(3,673)
Total shareholders' equity	**(508)**	3,542	1,415

Deferred income has been disclosed separately in these interim statements. This treatment differs from that in the audited accounts for the year ending 30 June 2019.

Consolidated interim statement of changes in equity
as at 31 December 2019 (unaudited)

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Currency reserve £'000	Total shareholders' equity £'000
Balance at 1 July 2018	427	4,618	99	694	(31)	5,807
Share based payment charge	-	-	30	-	-	30
Dividend paid	-	-	-	-	-	-
Transactions with owners	-	-	30	-	-	30
Retranslation of foreign assets	-	-	-	-	(74)	(74)
Loss for the period	-	-	-	(2,221)	-	(2,221)
Total comprehensive loss	-	-	-	(2,221)	(74)	(2,295)
Balance as at 31 December 2018	427	4,618	129	(1,527)	(105)	3,542
Balance as at 1 January 2019	427	4,618	129	(1,527)	(105)	3,542
Share based payment charge	-	-	52	-	-	52
Dividend paid	-	-	-	-	-	-
Transactions with owners	-	-	52	-	-	52
Retranslation of foreign assets	-	-	-	-	(33)	(33)
Loss for the period	-	-	-	(2,146)	-	(2,146)
Total comprehensive loss	-	-	-	(2,146)	(33)	(2,179)
Balance at 30 June 2019	427	4,618	181	(3,673)	(138)	1,415
Balance at 1 July 2018	427	4,618	181	(3,673)	(138)	1,415
Share based payment charge	-	-	24	-	-	24
Dividend paid	-	-	-	-	-	-
Transactions with owners	-	-	24	-	-	24
Retranslation of foreign assets	-	-	-	-	156	156
Loss for the period	-	-	-	(2,103)	-	(2,103)
Total comprehensive loss	-	-	-	(2,103)	156	(1,947)
Balance at 31 December 2019	**427**	**4,618**	**205**	**(5,776)**	**18**	**(508)**

Consolidated statement of cash flows
for the six months ended 31 December 2019

	Six months ended 31 December 2019	Six months ended 31 December 2018	Twelve months ended 30 June 2019

	£'000	£'000	£'000
	(unaudited)	(unaudited)	(audited)
Cash flows from operating activities			
(Loss)/Profit after taxation	**(2,103)**	(2,221)	(4,366)
Adjustments for:			
Depreciation and amortisation	**249**	119	244
Interest income	**(1)**	(181)	(181)
Interest expense	**41**	-	-
Retranslation of foreign assets	**156**	(73)	(107)
Income taxes	**(221)**	(136)	(136)
Share based payments	**24**	30	82
Decrease(increase) in trade & other receivables	**(951)**	(1,446)	(1,154)
Increase/(decrease) in trade &other payables	**1,682**	1,539	1,605
Cash used in operating activities	**(1,124)**	(2,369)	(4,013)
Dividend paid	**-**	-	-
Income taxes received	**221**	136	136
Interest paid	**(41)**	-	-
Net cash used in operating activities	**(944)**	(2,233)	(3,877)
Cash flows from investing activities			
Purchase of property, plant and equipment	**(89)**	(15)	(110)
Development expenditure capitalised	**(465)**	(258)	(564)
Receipt of acquisition loan notes	**-**	2,114	2,114
Interest received	**1**	181	181
Net cash (used)/ generated in investing activities	**(553)**	2,022	1,621
Cash flows from financing activities			
Proceeds from borrowings	**1,500**	-	-
Repayment of borrowings	**-**	-	-
Repayment of lease liabilities	**(17)**	-	-
Issue of shares - net of cost of issue	**-**	-	-
Net cash generated in financing activities	**1,483**	-	-
Net (decrease)/increase in cash	**(14)**	(211)	(2,256)
Cash and cash equivalents at the start of the period	**1,492**	3,748	3,748
Net (decrease)/increase in cash	**(14)**	(211)	(2,256)
Cash and cash equivalents at the end of the period	**1,478**	3,537	1,492

Notes to the interim financial statements for the six months ended 31 December 2019

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 2019 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 2019.

The unaudited interim financial information for the period ended 31 December 2019 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 2019 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

New accounting policy - IFRS 16: *'Leases'*

The Group has adopted IFRS 16: *'Leases'* from 1 July 2019, which has resulted in new accounting policies as set out below.

From 1 July 2019, each lease is recognised as a right-of-use asset with a corresponding liability at the date at which the lease asset is available for use by the Group. Interest expense is charged to the Consolidated Income Statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the Consolidated Income Statement.

On adopting the standard there was no adjustment to opening equity and the comparative amounts presented in the Consolidated Income Statement and Consolidated Balance Sheet have not been restated.

On adoption the Group recognised lease liabilities of £0.05 million for leases previously classified as operating leases, measured at the present value of the remaining lease payments. In accordance with the transition provisions of IFRS 16, the Group discounted the future lease payments at the incremental borrowing rate of the lessee at the date of adoption. The borrowing rate applied to lease liabilities at 1 July 2019 was 12%. At the same time, the Group recognised right-of-use assets of £0.05 million, measured as if the standard had been applied since commencement date of the lease, and discounted using the lessee's incremental borrowing rate at the date of adoption.

The impact to adjusted EBITDA is an increase of approximately £0.02 million, but there is no overall impact to profit before tax.

4. Dividends

Given the strategic growth plans of the Group it is not proposed to declare a dividend for the period (2018: nil pence)

5. Analysis of results

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

	H1 FY 2020 EMEA £000s	H1 FY 2020 North America £000s	H1 FY 2020 Central £000s	**H1 FY 2020 Total £000s**	H1 FY 2019 EMEA £000s	H1 FY 2019 North America £000s	H1 FY 2019 Central £000s	**H1 FY 2019 Total £000s**
Revenue								
Recurring Fees	1,633	100	-	**1,733**	983	2	-	**985**
Set up and Professional Services Fees [1]	242	46	-	**288**	161	9	-	**170**
Other Sales	20	-	-	**20**	20	-	-	**20**
Total	**1,895**	**146**	**-**	**2,041**	**1,164**	**11**	**-**	**1,175**
Gross Profit	**1,241**	**135**	**-**	**1,376**	**588**	**11**	**-**	**599**
Margin %	65.5%	92.4%		**67.4%**	51%	100%		**51%**
Administrative Expenses	(1,959)	(1,327)	(366)	**(3,652)**	(1,155)	(1,404)	(574)	**(3,132)**
Loss from Operating Activities	**(718)**	**(1,192)**	**(366)**	**(2,276)**	**(567)**	**(1,393)**	**(574)**	**(2,534)**
Interest payable	(8)	(4)	(37)	**(49)**	(1)	(2)	(1)	**(4)**
Finance Income	-	-	1	**1**	-	-	181	**181**
Loss before Taxation	**(726)**	**(1,196)**	**(402)**	**(2,324)**	**(568)**	**(1,395)**	**(394)**	**(2,357)**

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

6. Underlying financial performance analysis

The Group uses the following internal metric to calculate Adjusted EBITDA:

	H1 FY 2020 EMEA £000s	H1 FY 2020 North America £000s	H1 FY 2020 Central £000s	**H1 FY 2020 Total £000s**	H1 FY 2019 EMEA £000s	H1 FY 2019 North America £000s	H1 FY 2019 Central £000s	**H1 FY 2019 Total £000s**
Loss before Taxation	(726)	(1,196)	(402)	**(2,324)**	(568)	(1,395)	(394)	**(2,357)**
Adjust for:								
Exceptional Costs	-	-	-	**-**	-	94	253	**347**
Expenses relating to share options	-	-	24	**24**	-	-	30	**30**
Exchange Loss/(Gain)	14	152	-	**166**	4	(73)	-	**(69)**
Interest Payable	8	4	37	**49**	1	2	1	**4**

Finance Income	-	-	(1)	**(1)**	-	-	(181)	**(181)**
Adjusted Loss from Operating Activities	**(704)**	**(1,040)**	**(342)**	**(2,086)**	**(563)**	**(1,372)**	**(291)**	**(2,226)**
Depreciation & Amortisation	245	4	**-**	**249**	119	-	-	**119**
Adjusted EBITDA	**(459)**	**(1,036)**	**(342)**	**(1,837)**	**(444)**	**(1,372)**	**(291)**	**(2,107)**

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 2019 £000	Six months ended 31 December 2018 £000	Twelve months ended 30 June 2019 £000
Earnings for the purposes of basic and diluted earnings per share			
Loss after taxation	**(2,103)**	(2,221)	(4,366)
Denominator	**'000**	'000	'000
Weighted average number of shares in issue in the period	**42,554**	42,554	42,387
Dilutive effect of potential shares and share options	**5,016**	4,279	4,697
Number of shares used in calculating diluted earnings per share	**47,570**	46,833	47,084
Basic and diluted earnings per share expressed in pence	**(4.94)**	(5.22)	(10.30)

8. Subsequent events to 31 December 2019

There are no subsequent events to disclose.