Eagle Eye Solutions Group plc

Hello.

Interim Report 2020

Transforming marketing for a digital world by bridging online to offline.

Welcome

Eagle Eye enables companies to digitally connect to their customers through promotions, loyalty, apps, subscriptions and gift services.

Learn more

At a Glance

Read more on page 02

Chairman's Review

Read more on page 04

Financial Statements

Read more on page 11

Highlights

How we did financially

Group revenue

£10.1m
(H1 2019: £8.0m)
↑ 26%

Revenue from Eagle Eye AIR ('AIR') platform

£9.6m
(H1 2019: £7.5m)
↑ 28%

Recurring revenue, from subscription fees and transactions

£7.3m
(H1 2019: £5.8m)
↑ 26%

Gross margin

94%
(H1 2019: 93%)
↑ Improved

Adjusted EBITDA[1]

£1.3m
(H1 2019: £(0.3)m)
Significant improvement from prior year

Net debt

£2.2m
(June 2019: net debt £1.2m)
Better than management expectations

1 EBITDA has been adjusted for the exclusion of share-based payment charges along with depreciation, amortisation, interest and tax from the measure of profit.

How we did operationally

- **Expansion of the customer base,** including first customer wins in the US and New Zealand
- **Significant volume growth** through the platform, following the successful go-lives of Tier 1 customers
- **Customer churn rate by value reduced** to 0.3% (H1 2019: 0.4%)
- **Expansion of the network audience** to include first Affiliate network partner, Tradedoubler, expanding the audience for promotions to over 180,000 additional publishers
- **Continued product innovation,** investing £2.3m in enhancements to the platform, including its cross-industry applicability (H1 2019: £1.9m)

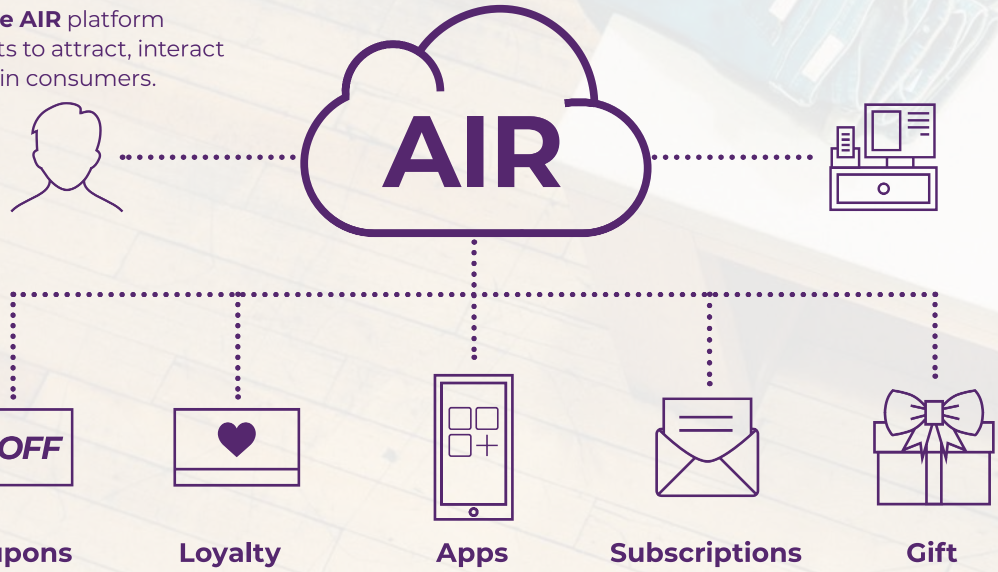
Financial Statements

Other Information

At a Glance

One platform, many products

Our **Eagle Eye AIR** platform enables clients to attract, interact with and retain consumers.



What we deliver

One platform, many products

One customer view linking online to offline

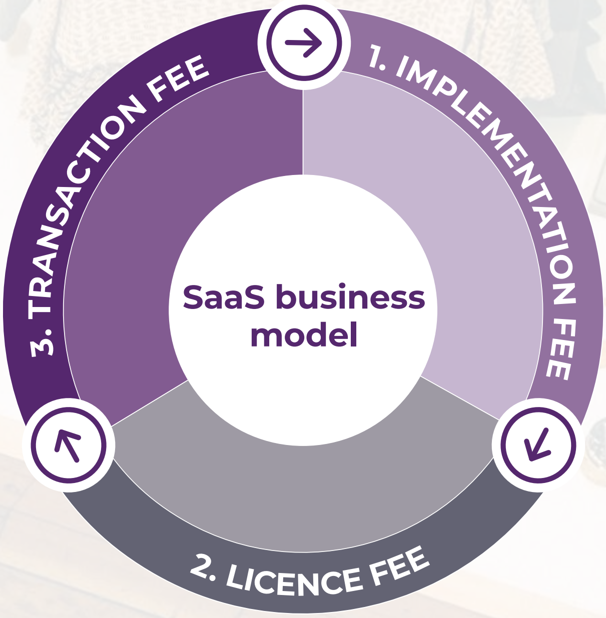
A network capability to reach new audiences

Easy to integrate via API to POS

At scale, securely and real-time

100% customer base coverage retention to acquisition

How we make money



1. One off implementation fee
2. Recurring licence fee for access to Eagle Eye AIR
3. Transaction fee

   Per issuance X pence – linked to value

   Per redemption 3–5 times issuance

   OR

   Interaction fees (earn and burn of points) for loyalty services replaces issuance and redemption

Markets we operate in

Loyalty

- single customer view;
- increased customer retention;
- build brand advocates;
- drive customer engagement; and
- collect data to inform promotions.

%OFF

Coupons

- versatile promotions;
- decreased operations costs;
- fraud protection;
- improved ROI;
- increased average spend; and
- measurable and targeted.

Gift

- acquire new customers;
- generate new revenues;
- access new sales channels;
- access to indirect B2B sales channels;
- personalisation of gift purchase; and
- customer care.

Size of markets

$2 bn[1]
loyalty management market 2019

$91 bn[2]
forecast value of digital coupon redemptions by 2022

$1.2 tn[3]
forecast value of gift cards market 2019

1 Global Loyalty Management Market Size, Status and Forecast 2019-2025, Orbis Research
2 Mobile & Online Coupons: Leading Vendors, Technologies & Market Forecasts 2017-2022 – Juniper Research
3 Global Market Study on Gift Cards: Key Players Going 'Omni-channel' – Persistence Market Research

Chairman's Review

Strong Performance

"The Group has delivered another strong performance in the Period, building on the momentum from the prior year."

Malcolm Wall
Non-Executive Chairman

The Group has delivered another strong performance in the Period, building on the momentum from the prior year. Revenue increased by 26% to £10.1m, (H1 2019: £8.0m) whilst revenue relating to the AIR platform grew by 28% to £9.6m. This growth has been driven by several significant customer contracts moving to the transactional phase following successful implementations, and increased revenues from existing customers, demonstrating their growing use of the AIR platform.

Importantly, the Period also saw the addition of several new customers, including our first US and New Zealand customers. Both contracts have now entered the implementation phase and should contribute to continued revenue growth in future periods. Customer churn levels remained extremely low, a credit to our client teams as well as demonstrating the continued value of the AIR platform to retailers, who use it to create a meaningful digital connection with their customers.

It is encouraging that the growth in revenues, combined with a continued focus on managing the cost base and the release of investment into the business in line with revenue growth, resulted in a significant improvement at the adjusted EBITDA level. The Group generated adjusted EBITDA of £1.3m compared to an adjusted EBITDA loss of £0.3m in the comparable period of the prior year. The Group closed the period with a net debt position of £2.2m (30 June 2019: £1.2m), better than management expectations, and the Group continues to have sufficient headroom within its £5m banking facility to support its existing growth plans.

Delivering on all elements of our growth strategy

I am pleased to report the following progress across all four elements of our growth strategy.

1. Win, transact and deepen:

Our customer strategy is to:

- 'Win': bring more customers on to the Eagle Eye AIR platform;
- 'Transact': drive higher redemption and interaction volumes through the platform; and
- 'Deepen': encourage our customers to adopt more of our product portfolio as they become more adept at digital marketing.

Win

The Period saw an increased win rate, both in the UK and in new geographies, resulting in an uplift in "Win" related revenue in the Period. These new customer implementations contributed to revenue growth in the Period, and importantly provide an increased base for future expected growth as these customers go live on the platform.

As at 31 December 2019, Eagle Eye had 335 customers and brands on the AIR platform (H1 2019: 316), including 113 FMCG brands (H1 2019: 96).

Transact

Redemption and interaction volumes, a key measure of usage of the AIR platform, grew by 81% to 791.3m (H1 2019: 437.8m), primarily driven by growth in loyalty transactions following the successful launch of new programmes and deepening of existing accounts, but also reflecting growth in all other types of transactions.

£10.1m
H1 2020 Group Revenue
(H1 2019: £8.0m)

28%
AIR revenue growth

£1.3m
H1 2020 EBITDA
(H1 2019: £(0.3)m)

Chairman's Review continued

Transact continued

As well as being utilised directly by our retail customers, the AIR platform is also used by brands to run campaigns across our growing Merchant and Audience partner network. The subscription and transaction revenue from branded drinks campaigns has continued to grow year-on-year, increasing 192% to £0.3m in the Period (H1 2019: £0.1m), driven by both the increased number of brands on the network and increased average value per campaign. New brand campaigns run in the Period included those by Guinness, Hop House 13 (part of Diageo) and Brewdog, delivering brand activation coupon campaigns to consumers to be redeemed across the Eagle Eye Food & Beverage network.

The other element of our 'Transact' strategy is our Audience partners, who include affiliate networks and membership groups. These partners add value to our merchants by promoting deals and discounts to their members and through their website traffic. During the Period, we signed several new partners including the National Union of Students, SVM Global and the Global Voucher Group, providing our customers with access to a widening consumer audience.

Importantly, the Period also saw the addition of the first Affiliate network, Tradedoubler. Affiliate networks sit as the layer above these types of membership groups, aggregating advertisers and publishers. Affiliate marketing has traditionally been extremely successful in driving online sales, by directing traffic to the retailer's website. Through partnering with Eagle Eye and the AIR platform, affiliate marketeers will have the ability to track codes both online and in store, thereby increasing the revenue opportunity for both retailers and affiliate networks. Tradedoubler, one of the UK's most successful affiliate networks, can now offer its customers this ability. Likewise, we can offer our clients the ability to disseminate their offers and promotions far wider than ever before, to over 180,000 additional publishers.

We are exploring further opportunities with affiliates with a view to increasing the number of promotions through the AIR platform.

Deepen

In the Period, we saw continued growth in recurring revenues, as existing clients increased their use of the AIR platform. The key driver of this is our Tier 1 customer segment where we have seen growth from both the increased use of the platform for promotional activity and the greater take-up of new services by Tier 1 customers.

The Period also saw several Tier 1 customers move from implementation to successful go-live on the AIR platform, driving a strong increase in recurring, transactional revenues. Highlights in the Period were the full roll-out of our loyalty service for an existing Tier 1 promotions customer - an example of the success of the Group's 'Win, Transact and Deepen' strategy; the go-live of a new Tier 1 customer; and the expansion of an existing customer's mobile App across Europe.

Customer retention remained high, with a churn rate by value of 0.3% (H1 2019: 0.4%) with several multi-year contract renewals taking place, demonstrating the stickiness of the AIR platform.

2. Innovation

Customer-led innovation lies at the heart of our proposition. We continue to invest in enhancements to the platform, increasing its ease of use for customers, its breadth of capabilities and its cross-industry applicability. A focus has been expanding the Loyalty capabilities to sectors outside of grocery. Through these investments, we believe we have created the best in class platform on a global basis for personalised loyalty and promotions, as evidenced by the speed and scale of the platform. Our transition to the Google Cloud Platform means we can now take a new Tier 1 customer implementation live in weeks rather than months, and our digital wallet capability is unique in the industry, enabling sophisticated, personalised digital loyalty programmes at scale.

We now have 21 customers using our Digital Wallet and loyalty capability, initially developed for Loblaws, which provides each consumer with an individual identity, enabling a retailer to carry out sophisticated personalisation of rewards and promotions. This has increased from 11 customers at 30 June 2019, and 5 at the end of H1 2019.

During the Period, we have delivered new loyalty features to support the implementations of the AIR platform for key customers. These features include POS Connect, a standard way for retailers to connect their Point of Sale systems to the AIR platform. POS Connect is backed up by full basket analysis capability, giving retailers the flexibility to create and manage complex and flexible loyalty propositions with no need for additional development while minimising costly POS changes. Additional functionality, such as a loyalty points exchange capability, has been added to the platform which enables Eagle Eye to power loyalty schemes across verticals and provides the basis for non-competing retailers to be able to work together, within the same loyalty programme, as partners.

In other areas we have improved our App offering to widen its applicability, expanding the capabilities available to include more of the core AIR functionality and partnering, where relevant, to meet market demand. The development and integration into our App of points-based loyalty programmes, gift vouchers and improved end-customer segmentation/communications capabilities provide a richer functionality set that is applicable across multiple verticals. Over the last 12 months, registered users of the App have grown by 76%, to over 4 million users. The App is now deployed across multiple geographies, including the UK, Hungary, France, Belgium and Luxembourg.

Additionally, we have placed a focus on both growing our retailer network and driving brand content into those retailers, bringing to the market a new product proposition 'Connected Campaigns'. Connected Campaigns incorporates a light touch integration with a retailers Point of Sale system, solely to facilitate brand-funded promotions, rather than the full capabilities of the AIR platform. This allows us to bring new, smaller retailers on board very quickly, at a lower cost and provides those retailers with access to brand funded promotions to drive footfall into their venues.

3. International growth

18 months ago we announced our intention to enter Australia and subsequently North America, placing a small team on the ground in Australia and using our Canadian team to support the US. This expansion was enabled in part by the transition of our platform into the Google Cloud, providing us with the means to scale on demand in additional geographies without significant upfront physical infrastructure costs.

Both geographies offer a wealth of opportunities for the AIR platform and we have made considerable progress, as demonstrated by the two customer wins.

In September 2019, we secured a three-year contract with a leading New Zealand retailer, the first win for our newly-formed Australian entity. Post Period end, this contract has successfully moved to its pilot launch with employees and the further rollout and go-live with this retailer is expected over the next 12 months. We continue to explore additional opportunities in this geography which has strong ties to UK retail.

In December 2019, we secured our first US customer, signing a five-year contract with Southeastern Grocers, Inc. (SEG), one of the largest conventional supermarket companies in the US. SEG grocery stories, liquor stores and in-store pharmacies serve communities throughout the seven southeastern states of Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina and South Carolina. The contract was secured alongside our strategic partner, News America Marketing (NAM), the premier marketing services company in the US and Canada.

Eagle Eye's services will enable SEG to deliver data-driven, personalised product information and relevant offers and messages to digitally-connected consumers in real time, including offers for consumer packaged goods sourced by NAM.

Winning a top 10 US grocer, in the Tier 1 bracket worldwide, is particularly pleasing and again demonstrates the applicability of the AIR platform for the world's largest retailers. The five-year contract for SEG has the potential to become one of our largest client implementations. We will be recruiting locally in the US in the second half of the financial year to deliver the successful rollout for the customer. We consider this to be a very encouraging start against the significant opportunity we believe the US represents.

We are pleased with the progress being made in the US alongside NAM. The partnership continues to open up new conversations, alongside the opportunities being generated directly by our teams.

The focus for both regions in the second half of the financial year will be on the successful delivery of these first implementations, to provide compelling customer reference cases.

4. "Better, simpler, cheaper"

While investing in innovation and growing the business, we simultaneously look for inherent productivity and efficiencies coming from the scale of what we do. The success of this ethos and the wholehearted manner with which it has been adopted across the organisation, is demonstrated by our material growth in adjusted EBITDA in the Period.

We have been building on these successes and implementing the agile methodology, not only within software development, but across the business, providing us with the means to be more flexible and responsive to changing customer and market demands across multiple geographies. The business is now split between functions that form the core 'backbone' of the business, such as infrastructure and security, finance and HR, and other functions whose activity and location is assigned each quarter, depending on the business requirements at the time, such as customer wins and implementation. The benefits of this model mean that we can remain a lean organisation, but able to support customers across multiple geographies and invest in line with, rather than ahead of, revenue growth.

Chairman's Review continued

Google Cloud

Our transition to the Google Cloud Platform ("GCP"), our lead 'Better, Simpler, Cheaper' initiative, was successfully completed during the Period, with the migration of the US data centre completing to plan in August 2019 with no disruption to service. This transition has started to generate like-for-like infrastructure cost savings, while enabling greater scope for geographic expansion. The Period saw our first new set up within GCP, being an environment in Australia to support the customer win in the region, which was implemented in considerably reduced timescales.

GCP is 'Better' because of Google's superior technology, giving Eagle Eye the benefit of increased performance, better resilience and additional layers of security. GCP is 'Simpler' because it consolidates our technology estate across the globe. We now have a single set of build scripts, code releases and deployment methods for all our Google Cloud platforms which will allow efficient management of the platform as we scale. And finally, 'Cheaper' because the model allows us to scale on demand. Rather than having a datacentre at full capacity at all times, we are able to flex according to load and known events. Geographic expansion can be achieved faster and with lower up-front costs, this being a key driver for change as we grow internationally.

Looking forward, it allows us to use the tools and technologies provided by Google, such as Artificial Intelligence, logging and monitoring, containers, and the move to continuous deployment to aid in the innovation of the AIR platform. We have upskilled our technical team with Google certification, so that we can capitalise on these additional technical tools.

Increasingly well positioned to capitalise on the market opportunity

With the retail industry under continued pressure, brands and retailers need to understand their customers better in order to invest in the right areas. The AIR platform provides retailers with the ability to digitally connect with their customers, whether in an online or offline environment, using the tools of the e-commerce world. Through the AIR platform, retailers and brands can deliver personalised offers to customers, in order to drive visits and increase spend per visit, whilst measuring the effect and returns on marketing performance and sales. The results of this measurement ultimately provide valuable insight into customers' shopping behaviours, enabling further improved marketing initiatives.

At the heart of our growing market opportunity is the growth in mobile internet usage. Recent reports suggest that by 2025, 61% of the global population, being some 5 billion people, will be using the mobile internet.[1] This huge growth is naturally driving a significant increase in digital advertising spend, as retailers seek to get in front of this growing audience. Internet-based ad formats are set to account for over half of all media spend worldwide by the end of 2020 if the current trajectory is maintained.[2] We believe that the world of promotions, which remains largely paper-based, will be the next to follow this trend, as retailers seek to capitalise on the vast benefits of digital.

As brands and retailers follow the customer, there are huge opportunities in each of the markets we operate in – both those where we have an established presence, as well as where we are beginning to grow. In 2019, the global loyalty management market was valued at USD 2 billion, and is expected to reach a value of USD 7 billion by 2025, at a compound annual growth rate (CAGR) of 16.9% (2019-2025).[3] The US is the largest market, with 80% penetration among consumers while Asia-Pacific, including Australia and New Zealand is expected to be the fastest growing, anticipated to increase from a market worth USD 741 million in 2019 to USD 2.9 billion by 2025, a 25.1% CAGR[4].

In the promotions market, the value of digital coupon redemptions is forecast to increase to USD 91 billion by 2022 at a CAGR of 14.1%, up from USD 47 billion in 2017, with in-app redemptions driving mobile channel growth.[5]

Another area of our offering, gifting, is also experiencing strong growth. Market research has found the popularity of physical or digital gift cards is growing exponentially as a promotional marketing tool, worth USD 1.2 trillion globally by the end of 2019 and is forecast to deliver CAGR of 11% over 10 years to 2029.[6] North America is the largest gift market, where the US claims an 85% regional share of spending, of which egifting represents the largest proportion and 51% of consumers have bought gift cards for themselves. The Australian gift card market was estimated to have been worth AUD 4.5 billion (USD 3.05 billion) in 2017 and within this market the egift segment is forecast to grow the fastest.[7]

This data illustrates that the addressable market for Eagle Eye is significant, and that with our recent customer wins and geographical expansion, we now have a strong foothold in some of the largest and fastest growing regions and offerings.

1 GSMA Intelligence, The Mobile Economy 2019, February 2019

2 WARC, Internet to swallow majority of global media spend by 2020, 28 May 2019

3 Global Loyalty Management Research 2019 – Orbis Research

4 Loyalty Management Market 2019 - Mordor Intelligence

5 Mobile & Online Coupons: Leading Vendors, Technologies & Market Forecasts 2017-2022 – Juniper Research

6 Global Market Study on Gift Cards: Key Players Going 'Omni-channel' – Persistence Market Research

7 Rise in corporate preference for incentive-based 'gift cards' to fillip the global market growth finds PMR study, Persistence Market Research, 4 October 2019

Financial Review

Key performance indicators	H1 2020	H1 2019
Financial	£000	£000
Revenue	10,072	8,020
AIR revenue	9,564	7,480
Adjusted EBITDA[1]	1,280	(294)
Loss before interest and tax	(473)	(1,764)
Net debt	2,161	1,770
Cash	1,239	630
Short term borrowings	(3,400)	(2,400)
Non-financial		
AIR volumes	791.3m	437.8m
Recurring revenue:		
– Licence revenue	£3.8m, 38%	£2.9m, 36%
– AIR transaction revenue	£3.0m, 30%	£2.3m, 29%
– SMS transaction revenue	£0.5m, 5%	£0.5m, 7%
Total Recurring revenue	73%	72%
Customers and brands on the AIR platform	335	316
Customer churn by value	0.3%	0.4%

[1] Adjusted EBITDA excludes share-based payment charges along with depreciation, amortisation, interest and tax from the measure of profit

Revenue and gross profit

During the Period, the Group delivered a revenue increase of 26% to £10.1m (H1 2019: £8.0m). Half-on-half revenue growth accelerated from 11% in H2 2019 to 13% in H1 2020. This revenue increase was driven by Eagle Eye AIR platform revenue growth, which, at £9.6m, was up 28% on H1 2019 and represented 95% of total revenue (H1 2019: 93%). The balance of revenue (5%), represents non-core SMS revenue (H1 2019: 7%), which is expected to continue to be a smaller proportion of the business in future periods.

Redemption and interaction volumes, a key measure of usage of the AIR platform, grew by 81% to 791.3m (H1 2019: 437.8m), primarily driven by an increased number of loyalty transactions following the successful launch of new customer programmes and the deepening of existing accounts but also reflecting growth in all other services. Pleasingly, Gift transactional volumes over the Black Friday and Christmas period were up 37% on the same period in H1 2019.

Revenue generated from recurring subscription fees and transactions over the network represented 73% (H1 2019: 72%) of total revenue for the Period. AIR recurring revenues grew 29% against the prior year to £6.8m (H1 2019: £5.3m), driven primarily by 45% growth in loyalty revenue to £3.5m (H1 2019: £2.4m) reflecting the transactional volume growth above. Recurring subscription fees and transactional revenue has grown across all services.

Gross profit grew 27% to £9.4m (H1 2019: £7.4m) and the gross margin continued to grow to 94% (H1 2019: 93%). Our gross margin's continued improvement is due to the continued high AIR margin of 97% (H1 2019: 97%) which offsets the impact of the lower margin SMS business which now only accounts for 1% of gross profit (H1 2019: 2%). Cost of sales includes the cost of sending SMS messages, revenue share agreements and outsourced development work. All internal resource costs are recognised within operating costs, net of capitalised development and contract costs.

Adjusted operating costs and EBITDA

As noted above, revenue growth was 26%, but growth in adjusted operating costs has been successfully limited to just 5% at £8.2m (H1 2019: £7.7m). Operating costs represents sales and marketing, product development (net of capitalised costs), project delivery (net of capitalised implementation costs), operational IT, general and administration costs. The increase primarily reflects the additional headcount required to drive the growth in revenue and costs associated with the successful commencement of Australian operations.

Net staff costs, which represent 59% of operating costs (H1 2019: 57%), increased 9% to £4.8m (H1 2019: £4.4m), reflecting the increase in the number of employees at the end of the Period to 144 (H1 2019: 140), annual pay awards and higher bonus accruals associated with significant new wins in the Period. Infrastructure costs increased 8% to £2.0m (H1 2019: £1.8m) reflecting the costs of a new operating environment for Australian operations and increased transactional volumes, offset by the impact of the transition to Google Cloud which, in addition to enhancing our performance, resilience and security has also started to generate like-for-like infrastructure cost savings. As a result of the Group's continued cost control initiatives, other operating costs, which are either discretionary or are not correlated to changes in revenue, were 8% lower at £1.4m (H1 2019: £1.5m).

Reflecting efforts to focus on selling turnkey products, rather than one-off bespoke solutions, capitalised staff costs related to product development were £1.2m (H1 2019: £1.0m). Overall gross spend on product development increased to £2.3m (H1 2019: £1.9m). Amortisation of capitalised development costs was £1.0m (H1 2019: £0.8m). Amortisation of costs capitalised under IFRS 15 was £0.2m (H1 2019: £0.1m).

Chairman's Review continued

Adjusted operating costs and EBITDA continued

Adjusted EBITDA swung from £(0.3)m in H1 2019 to £1.3m in the Period as a result of the increased revenue and gross profit delivered during the Period, aligned with cost management initiatives under the 'Better, Simpler, Cheaper' philosophy. To provide a better guide to the underlying business performance, adjusted EBITDA excludes share-based payment charges along with depreciation, amortisation, interest and tax from the measure of profit.

Earnings per share

Net finance expenses increased 23% to £0.2m (H1 2019: £0.1m) reflecting the cost of amounts drawn against the Group's revolving credit facility.

The tax charge of £11,000 (H1 2019: £0.4m credit) reflects tax payments for the Group's profitable operations in Canada, offset by the final UK research and development tax credit following finalisation of the claim for FY 2019, now submitted to HMRC. With the Group moving towards profitability no research and development tax credit has been accrued in the Period as a cash payment following submission of the FY 2020 claim is not expected. The Group has significant UK tax losses brought forward which will delay the adverse cash impact of tax charges as the Group moves towards tax profitability. Given that the Group is just moving to tax profitability, no deferred tax asset has been recognised in the Period.

Loss per share was materially reduced to 2.51p (H1 2019: 6.03p) primarily due to the growth in EBITDA offset by the movement to a tax charge in the Period.

Cash and net debt

Cash consumption in the Period has followed the Group's usual seasonal profile which sees higher cash consumption in the first half of the year compared to the second half. The significant reduction in cash consumption relative to H1 2019 has led to the increase in net debt in the Period being limited to £0.9m (H1 2019: £2.1m increase). Cash consumption primarily reflected the capital investment in the Eagle Eye AIR platform of £1.2m, £0.2m of capitalised IFRS 15 costs and £0.2m lease payments offset by an operating cash inflow of £0.9m (H1 2019: £0.6m outflow). As a result, the Group's net debt at the end of the Period was £2.2m (June 2019: £1.2m), better than management expectations. Together with the unutilised portion of the Group's £5m revolving credit facility with Barclays Bank plc, which expires in May 2021, this means the Group has £2.8m available headroom (December 2018: £3.2m) which the Directors believe is sufficient to support the Group's existing growth plans.

The Group had net assets of £4.0m at the end of the Period (June 2019: £4.3m); the expected reduction in net assets primarily reflected the continued investment in the Group's AIR platform, finance costs and foreign exchange movements, offset by the adjusted EBITDA profit.

Covid-19

The Company is monitoring the impact of COVID-19 and is reviewing and updating its business continuity plans accordingly. As a business, we are well set up to facilitate remote working across our operations. We do not have any employees or major customers in the most severely affected geographies. The Group's client base and sales opportunities are in multiple geographies, therefore, any travel restrictions may slow down the agreement of new contracts and there is a risk of delayed decision making if businesses are operating at a slower rate overall. A reduction in the frequency of in store shopping and dining out could reduce the flow of transaction volumes through the AIR platform, however, this may be partially offset by the increased use of promotions to incentivise consumer activity. In H1 FY20, Food & Beverage clients accounted for approximately 10% of Group revenue. We continue to monitor the situation closely as it develops.

Outlook

The first few months of the second half of the financial year have begun well and the Group's current trading remains in line with the Board's expectations. The new customers secured during the Period are driving continued growth in implementation and transactional revenues. Investment has begun into the expansion of our teams to support these new customer implementations, while leveraging our previous investments into Canada, in the case of the US, and the Google Cloud environment in new territories.

The second half of the financial year will see us focus on the successful implementations of our new international customers, the deepening of our existing customer engagements and conversion of our sales pipeline.

The growing agility of the business means we are confident we have the right structure to support an increasingly international customer base. The Group's funding position is comfortable and sufficient headroom remains within the Group's £5m banking facility to support existing growth plans.

While we continue to monitor the evolving situation with COVID-19 closely, our good level of prospects in all target geographies, growing customer base, high levels of recurring revenue, very low levels of customer churn and expanding market opportunity, mean the Board looks to the long-term success of Eagle Eye with confidence.

Malcolm Wall
Non-Executive Chairman

Consolidated unaudited interim statement of total comprehensive income

for the six months ended 31 December 2019

	Note	Unaudited 6 months to 31 December 2019 £000	Unaudited 6 months to 31 December 2018 £000	Unaudited Year to 30 June 2019 £000
Continuing operations				
Revenue	3	10,072	8,020	16,929
Cost of sales		(636)	(577)	(1,171)
Gross profit		9,436	7,443	15,758
Adjusted operating expenses[1]		(8,156)	(7,737)	(15,044)
Profit/(loss) before interest, tax, depreciation, amortisation and share-based payment charge		1,280	(294)	714
Share-based payment charge		(371)	(349)	(822)
Depreciation and amortisation		(1,382)	(1,121)	(2,423)
Operating loss		(473)	(1,764)	(2,531)
Finance income		2	8	1
Finance expense		(161)	(137)	(277)
Loss before taxation		(632)	(1,893)	(2,807)
Taxation		(11)	358	447
Loss after taxation for the financial period		(643)	(1,535)	(2,360)
Foreign exchange adjustments		(127)	(43)	51
Total comprehensive loss attributable to the owners of the parent for the financial period		(770)	(1,578)	(2,309)

1 Adjusted operating expenses excludes share-based payment charge, depreciation and amortisation

	Note			
Loss per share from continuing operations				
Basic and diluted	4	(2.51)p	(6.03)p	(9.27)p

Consolidated unaudited interim statement of financial position

as at 31 December 2019

	Unaudited 31 December 2019 £000	Unaudited 31 December 2018 £000	Unaudited 30 June 2019 £000
Non-current assets			
Intangible assets	6,413	5,868	6,158
Contract fulfilment costs	237	209	217
Property, plant and equipment	1,048	1,381	1,205
	7,698	7,458	7,580
Current assets			
Trade and other receivables	5,669	5,904	3,618
Current tax receivable	407	661	370
Cash and cash equivalents	1,239	630	1,363
	7,315	7,195	5,351
Total assets	15,013	14,653	12,931
Current liabilities			
Trade and other payables	(6,749)	(7,071)	(4,874)
Financial liabilities	(3,400)	(2,400)	(2,600)
	(10,149)	(9,471)	(7,474)
Non-current liabilities			
Other payables	(817)	(616)	(1,137)
Total liabilities	(10,966)	(10,087)	(8,611)
Net assets	4,047	4,566	4,320
Equity attributable to owners of the parent			
Share capital	257	254	255
Share premium	17,190	17,055	17,066
Merger reserve	3,278	3,278	3,278
Share option reserve	3,456	2,779	3,236
Retained losses	(20,134)	(18,800)	(19,515)
Total equity	4,047	4,566	4,320

Consolidated unaudited interim statement of changes in equity

for the six months ended 31 December 2019

	Share capital £000	Share premium £000	Merger reserve £000	Share option reserve £000	Retained losses £000	Total £000
Balance at 1 July 2018	254	17,055	3,278	2,430	(17,222)	5,795
Loss for the period	–	–	–	–	(1,535)	(1,535)
Other comprehensive income						
Foreign exchange adjustments	–	–	–	–	(43)	(43)
	–	–	–	–	(1,578)	(1,578)
Transactions with owners						
Share–based payment charge	–	–	–	349	–	349
	–	–	–	349	–	349
Balance at 31 December 2018	254	17,055	3,278	2,779	(18,800)	4,566
Loss for the period	–	–	–	–	(825)	(825)
Other comprehensive income						
Foreign exchange adjustments	–	–	–	–	94	94
	–	–	–	–	(731)	(731)
Transactions with owners						
Exercise of share options	1	11	–	–	–	12
Fair value of share options exercised	–	–	–	(16)	16	–
Share–based payment charge	–	–	–	473	–	473
	1	11	–	457	16	485
Balance at 30 June 2019	255	17,066	3,278	3,236	(19,515)	4,320
Loss for the period	–	–	–	–	(643)	(643)
Other comprehensive income						
Foreign exchange adjustments	–	–	–	–	(127)	(127)
	–	–	–	–	(770)	(770)
Transactions with owners						
Exercise of share options	2	124	–	–	–	126
Fair value of share options exercised	–	–	–	(151)	151	–
Share–based payment charge	–	–	–	371	–	371
	2	124	–	220	151	497
Balance at 31 December 2019	257	17,190	3,278	3,456	(20,134)	4,047

Included in "retained losses" is a cumulative foreign exchange balance of £2,000 (June 2019: £129,000) which could be recycled to profit and loss.

Consolidated unaudited interim statement of cash flows

for the six months ended 31 December 2019

	Unaudited 6 months to 31 December 2019 £000	Unaudited 6 months to 31 December 2018 £000	Unaudited Year to 30 June 2019 £000
Cash flows from operating activities			
Loss before taxation	(632)	(1,893)	(2,807)
Adjustments for:			
Depreciation	205	205	407
Amortisation	1,178	916	2,016
Share-based payment charge	371	349	822
Finance income	(2)	(8)	(1)
Finance expense	161	137	277
(Increase)/decrease in trade and other receivables	(2,052)	(1,845)	429
Increase/(decrease) in trade and other payables	1,792	1,579	(71)
Income tax paid	(153)	(1)	(9)
Income tax received	–	–	506
Net cash flows from operating activities	868	(561)	1,569
Cash flows from investing activities			
Payments to acquire property, plant and equipment	(48)	(84)	(111)
Payments to acquire intangible assets	(1,452)	(1,197)	(2,596)
Net cash flows used in investing activities	(1,500)	(1,281)	(2,707)
Cash flows from financing activities			
Net proceeds from issue of equity	126	–	12
Proceeds from borrowings	1,700	2,200	3,300
Repayment of borrowings	(900)	(900)	(1,800)
Capital payments in respect of leases	(133)	(127)	(257)
Interest paid in respect of leases	(23)	(29)	(56)
Interest paid	(137)	(108)	(222)
Interest received	2	8	1
Net cash flows from financing activities	635	1,044	978
Net increase/(decrease) in cash and cash equivalents in the period	3	(798)	(160)
Foreign exchange adjustments	(127)	(44)	51
Cash and cash equivalents at beginning of period	1,363	1,472	1,472
Cash and cash equivalents at end of period	1,239	630	1,363

Notes to the consolidated unaudited interim financial statements

1. Basis of preparation

The Group's half-yearly financial information, which is unaudited, consolidates the results of Eagle Eye Solutions Group plc and its subsidiary undertakings up to 31 December 2019. The Group's accounting reference date is 30 June. Eagle Eye Solutions Group plc's shares are listed on the Alternative Investment Market of the London Stock Exchange (AIM).

The Company is a public limited liability company incorporated and domiciled in England & Wales. The presentational and functional currency of the Group is Sterling. Results in this consolidated financial information have been prepared to the nearest £1,000.

Eagle Eye Solutions Group plc and its subsidiary undertakings have not applied IAS 34, Interim Financial Reporting, which is not mandatory for UK AIM listed groups, in the preparation of this half-yearly financial report.

The accounting policies used in the preparation of the financial information for the six months ended 31 December 2019 are in accordance with the recognition and measurement criteria of International Financial Reporting Standards ('IFRS') as adopted by the European Union and are consistent with those which will be adopted in the annual financial statements for the year ending 30 June 2020.

The profit before interest, tax, depreciation, amortisation and share-based payment charge is presented in the statement of total comprehensive income as the Directors consider this performance measure provides a more accurate indication of the underlying performance of the Group and is commonly used by City analysts and investors.

While the financial information included has been prepared in accordance with the recognition and measurement criteria of IFRS, as adopted by the European Union, these interim financial statements do not contain sufficient information to comply with IFRS.

The comparative financial information for the year ended 30 June 2019 has been extracted from the annual financial statements of Eagle Eye Solutions Group plc. These interim results for the period ended 31 December 2019, which are not audited, do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The financial information does not therefore include all of the information and disclosures required in the annual financial statements.

Full audited accounts of the Group in respect of the year ended 30 June 2019, which received an unqualified audit opinion and did not contain a statement under section 498(2) or (3) of the Companies Act 2006, have been delivered to the Registrar of Companies.

2. Going concern basis

As part of their going concern review the Directors have followed the guidelines published by the Financial Reporting Council entitled "Guidance on Risk Management and Internal Control and Related Financial and Business Reporting". The Directors have prepared detailed financial forecasts and cash flows looking beyond 12 months from the date of this half-yearly financial information. In developing these forecasts, the Directors have made assumptions based upon their view of the current and future economic conditions that will prevail over the forecast period.

On the basis of the above projections, the Directors are confident that the Group has sufficient working capital to honour all of its obligations to creditors as and when they fall due. In reaching this conclusion, the Directors have considered the forecast cash headroom, the resources available to the Group and the potential impact of changes in forecast growth and other assumptions, including the potential to avoid or defer certain costs and to reduce discretionary spend as mitigating actions in the event of such changes. Accordingly, the Directors continue to adopt the going concern basis in preparing this half-yearly financial information.

Notes to the Consolidated Unaudited Interim Financial Statements continued

3. Segmental analysis

The Group is organised into one principal operating division for management purposes. Revenue is analysed as follows:

	Unaudited 6 months to 31 December 2019 £000	Unaudited 6 months to 31 December 2018 £000	Unaudited Year to 30 June 2019 £000
Development and set up fees	2,759	2,222	4,930
Subscription and transaction fees	7,313	5,798	11,999
	10,072	8,020	16,929

	Unaudited 6 months to 31 December 2019 £000	Unaudited 6 months to 31 December 2018 £000	Unaudited Year to 30 June 2019 £000
AIR revenue	9,564	7,480	15,927
Messaging revenue	508	540	1,002
	10,072	8,020	16,929

The majority of the Group's revenue comes from services which are transferred over time.

4. Loss per share

The calculation of basic and diluted loss per share is based on the result attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the period. The weighted average number of shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and therefore would not be dilutive.

	H1 2020			H1 2019		
	Unaudited Loss per share pence	Unaudited Loss £000	Unaudited Weighted average number of ordinary shares	Unaudited Loss per share pence	Unaudited Loss £000	Unaudited Weighted average number of ordinary shares
Basic and diluted loss per share	(2.51)	(643)	25,593,503	(6.03)	(1,535)	25,444,127

5. Alternative performance measure

EBITDA is a key performance measure for the Group and is derived as follows:

	Unaudited 6 months to 31 December 2019 £000	Unaudited 6 months to 31 December 2018 £000	Unaudited Year to 30 June 2019 £000
Loss before taxation	(632)	(1,893)	(2,807)
Add back:			
Finance income and expense	159	129	276
Share-based payments	371	349	822
Depreciation and amortisation	1,382	1,121	2,423
EBITDA	1,280	(294)	714

6. Net debt

	30 June 2019 £000	Cash flow £000	Foreign exchange adjustments £000	31 December 2019 £000
Cash and cash equivalents	1,363	3	(127)	1,239
Financial liabilities	(2,600)	(800)	–	(3,400)
Net debt	(1,237)	(797)	(127)	(2,161)

7. Availability of this interim announcement

Copies of this announcement are available on the Company's website, www.eagleeye.com.

Company Information

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Bankers	Barclays Bank plc 27 Soho Square London W1D 3QR
Solicitors	Taylor Wessing LLP 5 New Street Square London EC4A 3TW
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