



## INVESTOR UPDATE

### OCTOBER 2013



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1 Recap - The Company / The Opportunity / The Market

2 Progress to date - Corporate / Operational / Technology

3 Current focus – Australian Expansion

4 Future Direction – Mobile and Online Payments

5 The Numbers

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# Recap - About Smartpay



## Company Overview

- Provider of value add EFTPOS and payments services in Aus and NZ.
- ~45,000 terminals across ~ 20,000 customers.
- ~100 staff: Sales; Technology; Operations; Finance and Customers Service
- Merchant direct model.
- Fully integrated provider – in-house technology capability: transaction host and value add solutions.
- Listed on ASX (code: SMP) and NZX (code: SPY)

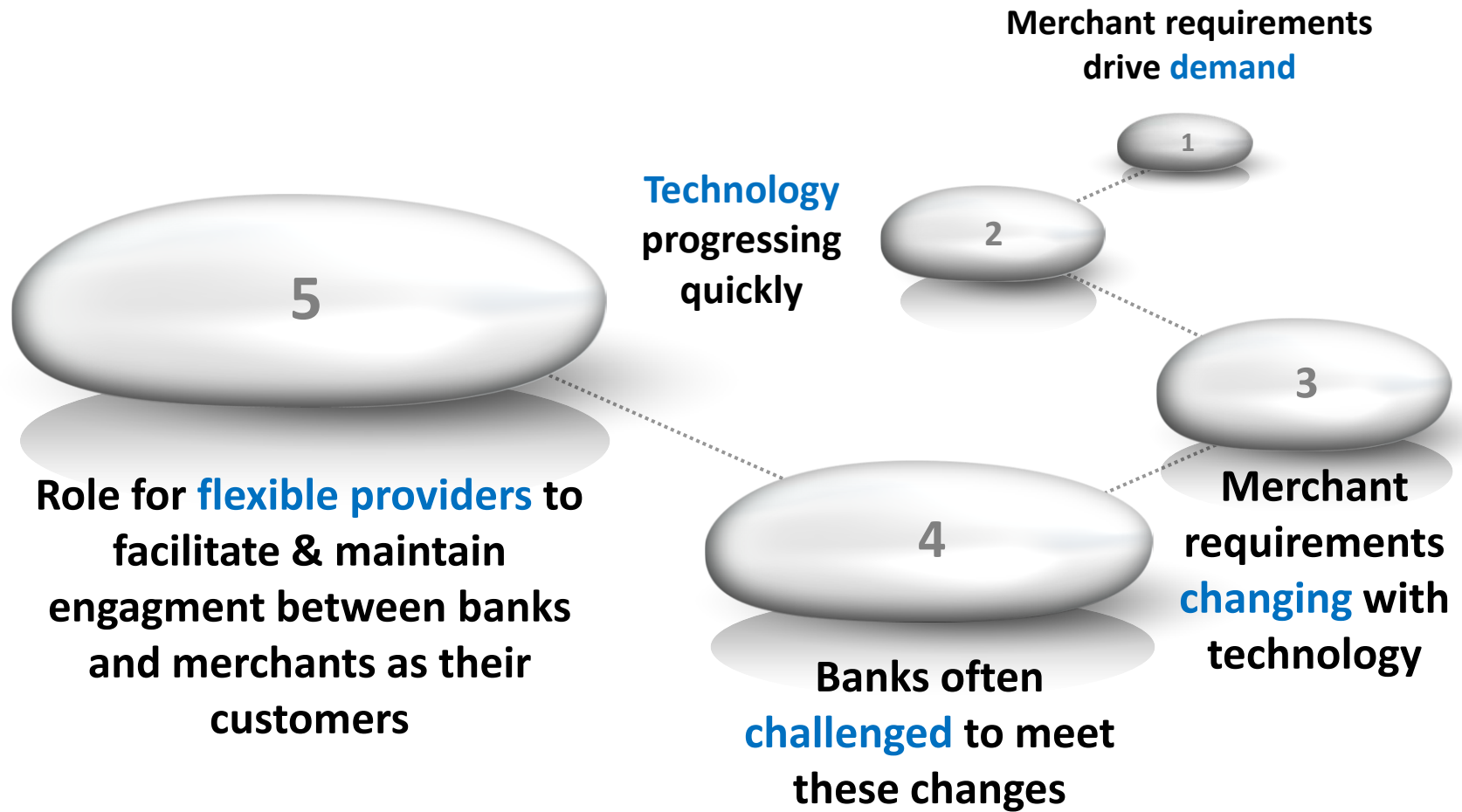
## Smartpay New Zealand

- Largest EFTPOS provider in NZ with ~35,000 terminals (~30% market share).
- Customers include: Air New Zealand; Pizza Hut; KFC; Foodstuffs (New World & Pak & Save); Mitre 10; Kathmandu etc.
- ~90% of taxi market.

## Smartpay Australia

- 2<sup>nd</sup> largest provider of terminals and payments infrastructure to the taxi industry (behind Cabcharge).
- Commercial / acquiring relationships with WBC and BBL.
- Primary focus for organic growth.

# Recap - The Opportunity



## Full service provider of innovative payment solutions to merchants



### Merchant Proposition

Focus on value add business solutions

Taxi Reporting, Club Loyalty, Smartcharge, CUP etc

### Bank Proposition

Provider of merchants to our banking partners

Acquiring, branding, innovation, end-to-end merchant management including terminal ownership



# Recap - Some of our Products





# Recap - Business Model



## EFTPOS Business Model - NZ

- Pure rental model:
  - Term: 3 – 5 year contracts
  - Ave rental: NZ\$48 / month
  - Terminal payback period: 6 – 8 months

## EFTPOS Business Model - Aus

- Combination of rental + transaction fee (share of MSF)
  - 3 – 5 year contracts
  - Target ave rental = AU\$40 – AU\$45 / month, includes:
    - Terminal rental and share of MSF (share of the 1% - 2% of transaction value)
  - Terminal payback period: 6 – 8 months

## Other Revenue

- Value add services through the terminals (mobile top-up; surcharging; DCC; loyalty etc)
- Transaction processing
- Other merchant services (retail TV / radio)

# Recap - Market Overview



## New Zealand

- ~110,000 terminals
- Dominated by independent providers
- Smartpay is the largest provider with ~30% market share

## Australia

- ~ 800,000 terminals
- Bank dominated - Limited service offering
- Upgrade cycle underway to meet EMV / chip card standard and contactless

## Barriers to Entry

- High and increasing due to constantly increasing security and compliance requirements around electronic payments
- Requires scale to be profitable
- Certification requirements time consuming; costly and require technical resource
- Fully integrated product offering / value add capability requires substantial investment in technology infrastructure (payments processing switch)

## Smartpay Competitive Advantage

- ✓ Existing scale
- ✓ Existing infrastructure and technology capability
- ✓ Existing certifications and bank relationships
- ✓ Fully integrated product offering / value add capability

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# Progress To Date - Corporate



- Complete Turn-Around of the Business:
  - Significant recapitalisation: Debt and Equity
  - Operational restructure
  - Turnaround from loss making to profitable EBITDA
- New Board (3 out of 4 new Directors)
- Appointment of KPMG as new auditors
- Completion and integration of Viaduct acquisition
  - added scale; and
  - brought seasoned Executives into the business
- ASX listing complete

- Significant advances in our product technology:
  - All terminals now “contactless” enabled
  - Market first smartphone and tablet wireless integration
  - Syncro 3 next generation Point Of Sale integration software certified
  - China Union Pay acceptance
  - Our terminal software applications now available in Australia
  - New products underway
- Recently appointed to “Preferred Supplier” status with 3rd NZ bank - BNZ.

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# Current Focus - Australian Expansion



- Significant organic growth opportunity
- 800,000 terminals = 5x larger than NZ market but structurally lagging as bank dominated
- Upgrade cycle underway to meet EMV / chip card standard and contactless
- Expect structural shift away from banks to independents:
  - Non-core activity for banks
  - Similar to shift towards ATM ISO model (from bank dominance)

# Current Focus - Australian Expansion



- Recent progress :
  - Certification of our first contactless terminals
  - Together with introduction of terminal software applications creates unique product
  - Further “next generation” mobile terminals planned for later this year
  - Appointment of 2 experienced sales managers:
    - Channel Manager; and
    - Direct Sales Manager
- Now focused on expanding sales channels:
  - Every 1,000 terminals added = ~A\$500k incremental revenue = EBITDA

# Current Focus - Australian Expansion



## Australian Sales Channels

Web



The Smartpay website is driving enquiries to the Smartpay sales teams, making full use of SEO and SEM as well as other inbound and outbound marketing campaigns

Direct



The Direct Sales Channel performs two functions:  
Lead Generation and Lead Conversion  
This channel is responsible for sourcing, qualifying and converting leads to transacting merchants

Resellers



The Resellers Channel is responsible for identifying and signing 3<sup>rd</sup> party companies who sell Smartpay solutions direct to merchants on Smartpay's behalf

Partners



Together with our Partners Channel we create value-added services and solutions for merchants. Our partners typically have specific new verticals to whom we jointly sell the new solutions

Banks



We provide an outsourced merchant acquisition services to the bank and acquirer partners with flexible solutions.  
This channel manages the merchant engagement, from initial sale through to client retention solutions and cross selling campaigns

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AFR Wednesday 11 September 2013  
www.afr.com / The Australian Financial Review

Financial Services Companies & Markets 19



Sir Michael Hintze... 'regulation is the biggest change'. PHOTO: LOUIE DOUVIS

**Investment** New rules have restricted banks in making large market bets

## Hedge funds aim to fill vacuum left by banks

Mr Soussa said his visit to Australia was part of the fund's efforts to [unclear] industry]. "Normally you say don't [unclear] industry]."

### PayPal unveils 'do nothing' payment

Sue Mitchell

Swiping, waving and tapping may soon become old hat.

Just as consumers have become comfortable tapping or waving their credit cards or smart phones to pay for goods, PayPal has unveiled technology that enables consumers to pay without taking their phones out of their pockets.

One week after launching new iPhone and Android apps that allow consumers to order and pay for purchases before they set foot in stores, PayPal has taken the idea of the digital wallet a step further with PayPal Beacon. "We challenged ourselves to find a better experience than swiping a credit card," said PayPal president David Marcus. "We figured the only better way to pay would be to do nothing."

With Beacon, consumers who have downloaded the PayPal app need only walk into a store and when they're ready to make a transaction the funds are then transferred securely to the merchant.

Using Bluetooth Low Energy, rather than Wi-Fi or GPS, the merchant's Beacon hardware detects when a customer with the PayPal app walks within 10 metres of the store.

At this point, the merchant can attempt to engage the consumer with special offers, discounts or details of new products to steer them into their stores.

When customers take the bait, their photo will appear on the merchant's compatible point-of-sale system.

Customers only need to give verbal confirmation of the transaction for the payment to go through. Customers are then sent a paperless receipt via email and text to confirm the purchase.

The Beacon technology is PayPal's latest attempt to replicate its large share of the online payments market in bricks and mortar stores.

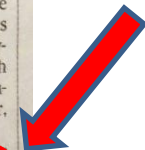
By offering consumers faster and more secure ways to pay and enabling retailers to communicate directly with consumers via their smart phones, PayPal hopes to challenge the dominance of credit card companies such as Mastercard and Visa. The mobile payments market is estimated to reach \$US90 billion (\$97 billion) in 2017, compared to \$US12.8 billion last year, according to Forrester Research.

"We don't expect cash or credit cards to go away," PayPal Australia managing director Jeff Clementz told The Australian Financial Review.

### Mutuals worse off with

"We don't expect cash or credit cards to go away"

Paypal Australia Managing Director, AFR 11/09/13



"We don't expect cash or credit cards to go away," PayPal Australia managing director Jeff Clementz told The Australian Financial Review.

- Mobile payment market currently small but set to grow
- Signals an increasing trend away from cash to electronic payment
- Mobile technology moving quickly
- Crowded space with many business models and no standards
- Two primary applications:
  1. Contactless enabled phones: complementary to EFTPOS
  2. Peer – to – peer: growth opportunity



- Three primary components to the value chain:
  1. Merchants
  2. Account holders
  3. Technology
- Smartpay has a large merchant base
- Smartpay has an in-house technology capability
- The opportunity is to leverage our technology capability to deliver solutions to allow account holders to access our merchants.
- Mobile and online strategy under development – work in progress



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# The Numbers – P&L



|   | Previous Guidance<br>As per FY13 Results<br>Presentation<br>Annualised Run Rate | Full Year - Audited<br>Group<br>31 Mar 2013 | Comments<br>FY14 vs FY13              |
|---|---|---|---------------------------------------|
| <b>Total Revenue</b>  | <b>22,200</b>   | <b>16,672</b>                               | Viaduct included full period          |
| <b>Earnings before interest, tax,<br/>depreciation, share options,<br/>amortisation and impairments</b> | <b>9,400</b>  | <b>5,468</b>                                | Viaduct in; Trans / Restruc costs out |
| Depreciation and amortisation   |   | (4,485)                                     |                                       |
| Share option amortisation   |   | (373)                                       |                                       |
| Interest expense and related costs  |   | (3,410)                                     |                                       |
| Impairment  |   | (1,263)                                     |                                       |
| <b>Profit / (loss) before tax</b>   |   | <b>(4,063)</b>                              |                                       |
| Tax benefit / (expense)   |   | (974)                                       |                                       |
| <b>Profit / (loss) for the period from<br/>continuing operations of owners</b>                          |   | <b>(5,037)</b>                              |                                       |
| Foreign currency translation differences<br>for foreign operations                                      |   | (11)  |                                       |
| <b>Total comprehensive income of<br/>owners</b>   |   | <b>(5,048)</b>                              |                                       |

# The Numbers – Balance Sheet

|                                      | 31-Mar-13     |
|--------------------------------------|---------------|
|                                      | Group         |
|                                      | NZ\$'000      |
| <b>CURRENT ASSETS</b>                |               |
| Cash                                 | 4,429         |
| Receivables / other                  | 2,753         |
| <b>Total Current Assets</b>          | <b>7,182</b>  |
| <b>NON CURRENT ASSETS</b>            |               |
| Terminal Assets                      | 11,786        |
| Non Terminal Assets                  | 1,151         |
| Finance Receivable                   | 834           |
| Intangibles                          | 20,045        |
| <b>Total Non Current Assets</b>      | <b>33,816</b> |
| <b>TOTAL ASSETS</b>                  | <b>40,998</b> |
| <b>CURRENT LIABILITIES</b>           |               |
| Payables, accruals, other            | 5,070         |
| Borrowings                           | 2,784         |
| <b>Total Current Liabilities</b>     | <b>7,854</b>  |
| <b>NON CURRENT LIABILITIES</b>       |               |
| Borrowings                           | 25,969        |
| Other                                | 85            |
| <b>Total Non Current Liabilities</b> | <b>26,054</b> |
| <b>TOTAL LIABILITIES</b>             | <b>33,908</b> |
| <b>NET ASSETS</b>                    | <b>7,090</b>  |
| <b>EQUITY</b>                        |               |
| Share Capital                        | 54,378        |
| Foreign currency translation reserve | 97            |
| Retained Earnings                    | (47,385)      |
| <b>TOTAL EQUITY</b>                  | <b>7,090</b>  |
| <b>NET DEBT</b>                      | <b>24,324</b> |

# Summary



- Significant opportunity leading innovation in a changing market
- We have experience, scale, capability and competitive advantage
- High margin, scalable business with barriers to entry
- Solid foundation in place for growth
- Significant and real growth opportunities in our existing core markets and in emerging payments markets



# Questions.