3 May 2017

ASX Market Announcements
Australian Securities Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

Shareholder Update

EML Payments Limited (**ASX: EML**) ("**Company**") is pleased to provide shareholders with an update on developments within the Company in the third quarter of FY17 ("**3QFY17**"). Whilst our primary financial reports will remain our half-year and full year statutory financials, in order to keep shareholders informed of progress in the business we will, in addition to specific announcements, release a general update at the end of the first and third quarters on an ongoing basis.

Gross Debit Volume

Gross Debit Volume, or GDV, is the total dollar value of transactions undertaken on our payment platform across our three product segments of Non-Reloadable, Reloadable and Virtual Payments, in the 13 countries in which we now operate across Australia, the United Kingdom, Europe, Canada and the USA.

GDV is the key performance metric for EML given:

- Pricing metrics across each product vertical are relatively stable and predictable across geographies:
    - Non-Reloadable products have converted to revenue at an average of 5.5% of GDV across the past 3 financial years and we expect no degradation to that in the coming financial year.
    - Reloadable products have converted to revenue at an average of 1.2% of GDV for the past 3 financial years and we would expect that to continue for current programs in market but with some materially significant programs coming on stream, we expect that to average 1.0% in FY18 and to experience little decline beyond that point.
    - Virtual Payments will typically convert to revenue at an average of 0.1% for transaction processing alone, through to 1.2% for processing and program management (end to end management of the program). The bulk of our current GDV in Virtual Payments is one in which we act as a processor, and recent launches with Sprint Telecommunications and Wide Open West are programs where we act as the full program manager.
    - The volume of GDV in Virtual Payments and resultant business mix saw the Company convert GDV to revenue at a blended rate of 1.2% and as the business mix evolves we expect a conversion rate remaining in the same range of 1-1.2% over time.

- Gross margin percentages are also stable and predictable across products and geographies:
    - Gross margins have averaged 78% for the past two financial years and this has continued into FY17. We expect to see gross margin percentages rise as products such as Virtual payments, with 90% gross margins, increase as a percentage of our overall business.

- Payments volumes processed on our platform generate the bulk of our revenue streams, including interchange revenue, transaction fees, foreign currency fees, load fees and breakage. The two revenue streams not directly derived from payments processing include Establishment fees and interest, which represented 13% of revenue in 1HFY17 and is expected to be sub-10% in FY18 and beyond.

- We generate scale in EBITDA from processing incremental debit volumes across a relatively fixed cost base, as reflected in the improvement in our EBITDA margins from 11% in 1HFY15 to 31% in 1HFY17.

- Given many of our 850 plus prepaid programs are on long term agreements, an understanding of our current monthly GDV run-rate, added to contracted programs for the next financial year, provide shareholders with visibility into future revenue and earnings growth:
    - EML generated $1.92 billion of GDV in 1HFY17, which includes seasonality in our shopping mall programs where two thirds of sales occur in the first half of the year.
    - EML generated $1.02 billion in GDV in 3QFY17 for a total of $2.95 billion in the 9 months to 31 March 2017.
    - EML generated $460m per month in GDV in March and April 2017, giving the Company an annual run rate of $5.5 billion as we head into FY18.
    - Salary Packaging programs going live in July 2017 will add approximately $750m to GDV, providing a realistic figure of $6.3 billion prior to adding in expected volumes from organic growth in existing programs, incremental European mall programs and contributions from contracted new programs including bet365 (UK) and Caesars Entertainment (USA). We would therefore expect GDV to be in excess of $7 billion in FY18.

Our focus remains incremental GDV growth across a variety of programs. Whether that is derived from a prepaid fuel card program in Italy, a prepaid shopping mall program in Germany, a prepaid gaming program in the United Kingdom or salary packaging programs in Australia, the relevant factor for shareholders is not a focus on any one program, but the recognition that we have multiple programs launching and in our sales pipeline which will accelerate GDV. Irrespective of the program or geography, if the Company continues to manage operating expenses closely, incremental GDV will translate into incremental EBITDA.

Non-Reloadable Segment GDV up 77%

Our Non-Reloadable segment generated $99m in GDV for the quarter, an increase of 77% over the prior comparative period, a result driven largely by organic growth in the existing portfolio.

In 3QFY17 we signed two new mall programs in single properties that we expect to be highly accretive for in FY18. These malls include Dundrum (Europe's largest shopping mall for gift card sales) and West Edmonton Mall (the largest shopping mall in Canada with circa 800 retailers). Collectively we expect these malls to represent an incremental $25m in GDV in FY18 and both are pre-existing programs taken over from competitors, with no incremental operating expense to support. In addition, we launched a number of new programs with existing customers, including new mall programs in France and the Netherlands, and renewed a number of existing mall program contracts for an additional 5 years.

We continue to see significant opportunities for our prepaid mall programs in continental Europe as existing mall portfolios begin to switch from paper vouchers to prepaid cards, due to likely changes in the European regulatory regime that will regulate paper vouchers as an e-money product and therefore require the program to be on a payment card. We expect to launch a material program of this type in July in Belgium.

Outside of shopping mall prepaid programs we continue to experience significant growth, particularly in closed loop employee incentive, restaurant and retail distribution programs. An example of a new program we are in the process of launching is an EML issued card restricted to use within the Auchan-owned supermarkets in Italy, as well as on the Auchan web store. Auchan operate over 2,000 supermarkets operating under the brands of Auchan, Simply Market, Ipersimply Market, Punto Simply and Lillapois and we expect this program to generate in excess of $10m of GDV in FY18.

The diversification in our Non-Reloadable portfolio provides for both upside gains and a hedge against a downturn in any one program. For example, as outlined in the first half report, gift card GDV in Australia is tracking $7m down on the prior comparative period, yet that volume contraction is more than offset by a recent $25m gift card program recently won in the USA and expected to be in market by the end of 4QFY17.

Reloadable Segment GDV up 135%

Our Reloadable segment generated $284m in GDV for the quarter, an increase of 135% over the prior comparative period. This growth was generated largely from organic growth in our Australian gaming programs and two months of contribution from our initial Reloadable program in the USA.

We increased the number of active Reloadable accounts from 187,000 in 1HFY17 to 243,000 (as at 31 March 2017), and in Australia we continue to prepare for the migration of circa 130,000 salary packaging accounts on or before 1 July that will generate an incremental $750m in GDV in FY18 and increase our active Reloadable accounts to 375,000.

The salary packaging programs will be heavily mobile centric and include the digitalisation of a range of discounts and offers to cardholders. These programs represent the first programs in Australia to incorporate merchant offer technology from PayWith Worldwide, Inc. ("**PayWith**") a company in which we increased our equity stake in the quarter from 17% to 19.9%. The Company is working on a number of sales opportunities in Australia, Europe and North America (including Caesars Entertainment) with PayWith, where our payments programs include a consumer offers component, which has the benefit of increasing GDV through better customer engagement and incremental revenue streams from the merchant base. We will update shareholders at the appropriate time as these opportunities are signed and/or launched, and we expect the Caesars Entertainment program to launch in the current quarter.

In Europe we launched our initial Reloadable gaming program in the UK with the launch of the bet365 program. Early indications suggest that customer adoption rates and usage will be similar to what they were in Australia, which reinforces our belief in the long term potential of this solution in the UK and broader European market for gaming programs. Aside from gaming programs, we are in discussions with a number of interested parties for new reloadable solutions and expect to be able to announce our progress on that before the end of the financial year.

Our first USA reloadable program was launched in the quarter and has performed well and we expect this single program to generate in excess of $1bn in GDV in its first full year. Consistent with our strategy for Australia and Europe, we are exploring a number of opportunities in North America where our payment platform improves the payment experience and commercial outcome for our clients and their customers.

Virtual B2B Segment

The Virtual B2B segment involves the automation and facilitation of payments from Companies to their suppliers, and specifically a focus on converting cheque payments to electronic payments over a Virtual prepaid card. There are multiple benefits accruing to the program participants, including:

- For the Company paying suppliers, a reduction in operating costs associated with cheque processing, mailing and cheque fraud, and the generation of an incremental revenue stream being the share of interchange that EML contracts to provide back to the Company.
- For the Supplier, a virtual card represents an instantly accepted and non-renounceable payment and in many cases is more administratively efficient than receiving cheques or direct credits to a bank account.

A video on this product is available on the EML Payments website at www.emlpayments.com.

In FY15 the estimated value of cheque payments made by Companies in the USA exceeded $2.2 Trillion dollars, which represents a significant market opportunity for EML and our competitors in this space. Virtual prepaid cards have made significant inroads in verticals such as the travel industry and in the health industry, and EML is focused on these same payment applications but within the broader industrials segment.

Our Virtual B2B segment generated $638m in GDV for the quarter (nil in the prior comparative period). We have a legacy program whereby we operate as a transaction processor for a large insurance aggregator but our focus is to grow our presence as a full service program manager to deliver a complete solution for the client, including enrolling the suppliers and not just payment processing. As mentioned earlier, the economics are vastly different where we would make roughly 10bps for pure transaction processing only and roughly 75-120bps for full program management. Transaction processing accounted for $608m of the quarter's GDV.

As a rule of thumb, we expect that for programs that are fully program managed, $100m in GDV will translate to $1m in revenue at a 90% gross margin. In 3QFY17 we processed $30m of virtual prepaid cards as a full program manager ($608m as processor), thus our run rate for Virtual Payments is currently $120m on an annual basis, which will generate circa $900,000 in incremental EBITDA in FY18 from the two programs launched in the quarter

In order to penetrate the market we are using a two-tiered approach utilising both direct sales and partnering with organisations that will act as referral agents for our payment solutions. The launch of payments for Wide Open West and Sprint Telecommunications as a full program manager also occurred in 3QFY17.

We also signed multiple agreements with referral organisations active in the accounts payable automation / business process outsourcing sector where EML acts as an intermediary between full program management and transaction processing. Specific clients we have signed agreements with in this space include Finexio and API Outsourcing.

It is a vast market opportunity that will take years to penetrate. By way of example, if EML were processing $100m per month in virtual prepaid cards, it would imply that those companies are collectively paying approximately $6bn in annual payments to their suppliers, out of a $2.2 Trillion dollar market. That small market share would generate approximately $9m in incremental EBITDA should we provide the role as full program manager.

We don't expect shareholders will re-rate EML on the potential from this segment until further success is demonstrated, and we look forward to updating shareholders in due course as new materially significant agreements are signed.

Operating Cash Flow Update

The Company generated an operating cash flow of $9.6m in 1HFY17 and generated gross operating cash flows of $2.23m in 3QFY17.

The Company invested an incremental $0.3m in PayWith and ended 3QFY17 with Cash and Cash Equivalents of $33.7m ($31.8m in 1HFY17).

Summary

As we work towards the end of the FY17 financial year, we are buoyed by the fact we have undertaken the necessary product development and are able to offer Reloadable and Non-Reloadable products in each region in which we operate and that we continue to identify and scale new verticals such as salary packaging in Australia.

We have made the necessary investments and FY18 should be a year in which we continue to launch multiple new programs that will continue to accelerate GDV and therefore revenue and EBITDA.

About EML

EML Payments Limited, Store Financial Europe, Store Financial Canada and Store Financial USA have come together under one exciting new brand: EML. With payment solutions from EML, you will be empowered with more control, transparency and flexibility over your payment processes. Our combined portfolio offers innovative payment technology solutions for payouts, gifts, incentives and rewards, and supplier payments. Together, we issue mobile, virtual and physical card solutions to some of the largest corporate brands around the world, process billions of dollars in payments each year, and manage more than 800 programs across North America, Europe and Australia. Learn more at www.EMLpayments.com

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