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## **EML 2018 FULL YEAR RESULTS PRESENTATION - TRANSCRIPT**

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EML Payments Limited's (**ASX: EML**) is pleased to provide (attached) a transcript of the briefing to shareholders and the investment community held following the release of its 2018 Full Year Results.

### **About EML**

EML Payments Limited, EML Payments Europe, EML Payments Canada and EML Payments 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 1,200 programs across Australia, Europe and North America. Learn more at [www.EMLpayments.com](http://www.EMLpayments.com)

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**Company:** EML Payments Limited  
**Title:** 2018 Full Year Results Presentation  
**Date:** 21 August 2018  
**Time:** 10:00am

### Start of Transcript

Operator: Ladies and gentlemen, thank you for standing by and welcome to the EML Payments Limited 2018 Full Year Results presentation. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question, you will need to press star one on your telephone. I must advise you that this conference is being recorded today, Tuesday 21 August 2018.

I will now like to hand the conference over to your first speaker today, Group CEO and Managing Director of EML, Tom Cregan. Thank you. Please go ahead.

Tom Cregan: Thank you, operator. Welcome to the EML FY18 Results presentation. I am joined here today by Bruce Stewart, Chief Financial Officer for the Group, and Rob Shore, Group Financial Director and Head of Investor Relations for EML. It's our pleasure to take you through the operating and financial results for FY18, briefly discuss the FY19 outlook, and then to open up for questions during the available time we have this morning.

The first slide I would like to talk to is slide 4, and I think this helps communicate our strategy and our mission to the broader market, which is as our business continues to expand both geographically through our product range, through the number of industry vehicles that our customers participate in, it's worth us restating our mission statement, which is in front of you there, which is we create awesome, instant and secure payment solutions, and here I think is the important bit, that connect our customers to their customers, anytime, anywhere, wherever money is in motion.

Why is it important in helping to communicate our purpose including to existing and potential customers, existing and potential investors, or they could be existing and potential employees. But as an example of that, when you think about our payment programs in the salary packaging industry in Australia, as one example, we provide a payment solution that was previously a two card solution, with a lot of manual effort required by the cardholder, with a one card solution that is in app, and completely mobile driven, with a merchant loyalty solution that allows the cardholders to take advantage of a range of discounts at various merchants, which as at the end of the September will include roughly about 5000 locations.

The fact that we've developed the merchant loyalty solution in conjunction with PayWith, which is where our investment in that company comes from, it doesn't make EML a loyalty company. But what it does mean is that our customers who are the salary packaging providers, such as McMillan and AccessPay and others, we connect them to their customers with a far superior product, and in so doing we generate incremental GDV and revenues.

We can then look to extend those same merchant loyalty benefits through to our other reloadable card holders irrespective of what vertical they're in, be that gaming, be that transport, be that anything else. Keep that in the back of your mind, that's the clarity that we want people to understand. We operate - we're now in 21 countries, we've got 1200 customers, those customers are in a range of industry verticals. We enable them, our customers to be closer to their customers by using payment solutions that are engaging, and we say awesome, which might sound a little bit cheesy for people that are on the call, but if you're accessing your gaming winnings in three seconds, as opposed to three days, then we think that's a reasonable use of the word.

Onto slide 5, which is some of the highlights of the year. As you can see there our GDV grew by \$2.3 billion over the prior year, with \$1.4 billion of that coming from programs that were already in market at the start of FY18, and \$914

million coming from programs that launched after July 1. This is important because it shows the inherent organic growth in the underlying portfolio of programs, supporting by volumes from newly launched programs, versus a business model where we are solely reliant on new programs year on year to generate growth, and there is no underlying growth in the portfolio. We think that's a very positive story, and we think that that's something we certainly see continuing going forward.

On slide 6, obviously we look at some of those wins that will help propel GDV and revenues both in FY19 and beyond, over the many coming years. ECE, obviously everyone would be familiar with that, we signed a long-term agreement with them in Germany, positioning us as the largest provider of prepaid solutions to the mall industry in Europe. We expect that program to be fully implemented by the end of October, and then will be working with ECE to try to extend that agreement into other countries over the life of the that relationship.

In reloadable we obviously announced our agreement with GVC in Europe following on from other contract signings during the year. In GVC, which is one of the largest companies of its kind in the world, but outside of GVC and some of those known gaming companies, we've signed several other contracts that individually aren't as material as others, but collectively they are. In some examples there are a company called ImpactPay, which is a neobank challenger that will be launching in Australia in the first half of this financial year, Instabank, which is our first reloadable program signed with a Norwegian bank to do effectively a flexible line of credit drawdown on a prepaid card.

We've partnered with additional crypto currency payout cards, where effectively a crypto gain can be converted to fiat currency, and then used throughout the payment network, which we've actually had running in Australia for quite a few years with a company called CoinJar. Q Card, which is another neobank challenger, that if you follow *Shark Tank* might be familiar to you, because they secured funding from two of the Sharks there.

We don't announce those, because I said individually they're not material, they just wouldn't warrant a release, but in addition to the GVCs of the world, and ECEs of the world, there's a constant array of contracts that have been signed and been launched, which just propels some of that growth.

Finally, providing an update on the B2B commercial payments business, which we're going to rename, and you'll see later in the deck is renamed to Virtual Account Numbers, because that's really what they are. We're just changing the naming, so the product doesn't change. We called out in the half-year result that we've seen slower launches of new programs over the latter part of the first half, and really at the time - if you can imagine it's December, January, where we're talking to companies about ramping, about changing their accounts payable processes. But it's a peak period of the year, so we just didn't get a lot of traction in sign-ons over that period of time. We've ended the year with 52 in market, so we continue to make steady progress there, and we'll talk about the bands or the B2B section a further on in the doc.

The next slide 7 and 8 is really just a reminder to shareholders of the acquisition of Presend in January 2018, and pages 9 and 10 are just a restatement or a summary of the recent acquisition of Perfectcard in Ireland. EML has had a clear strategy of self-issuing our own programs for some years now, which provide both improved economics obviously at the gross margin line, and as importantly if not almost more importantly, more control over the programs that we can implement. That's reflected in our issuing licence in Australia with Mastercard, and the acquisition of Perfectcard, which is Ireland's first regulated e-money institution. Both the GVC, ECE programs, et cetera, will be issued by [First] card which extends EML's role to be the full supply chain almost of issuer, processor and program manager.

One of the questions that came out following the announcement with ECE, and obviously those of you know, why is this deal taking so long to close from the letter of intent in February to when it was signed, was largely around issuance, because there are prepaid card issuers in Europe that are just exiting that space, that are deciding, these are banks, that are in the card issuing space who are deciding that this is just no longer core to their business. I think ECE took the very logical position of saying, we don't want to be in the position where we're working with a provider, EML for example, for there's a third-party issuer. If that issuer decides at some point they're no longer in the prepaid business for whatever

reason, they would then, and we and they would then be scrambling to find a new issuer and go through all the regulatory approval processes again.

The acquisition of Perfectcard was very important, that gives you one example within ECE of why it's important, because that is our core business, so they feel comfortable that we'll perform those functions. It also means that as other opportunities come up in Europe, that question of who the issuer is, and how long the issuer will continue to support prepaid programs goes out the window. We can truly be a one stop shop for those customers looking for that type of solution.

Slide 11 is an interesting chart, it actually looks at the acquisition multiples, or the actual multiples paid on previous acquisitions, and the current multiples based on EBITDA growth post-acquisition. As a reminder, we've historically acquired gift card companies at lower multiples than what you would acquire a reloadable company for, and then we've leveraged our technology to accelerate GDV and revenue growth.

As you can see the multiples, a lot of these deals are effectively halved within a couple of years post ownership, and we've certainly got the same expectations for Presend, which is now officially called EML Nordics, and for Perfectcard. That will give you an idea, as we look to future acquisitions, that will be a very similar strategy that we hold in terms of how do we find companies where you can buy - where the proverbial one plus one equals three. How do you find a business that's solid, established, on a lower multiple, and how do we accelerate that through the use of our own IP and technology?

On slide 11 [sic - slide 12], we have our regional summary of revenue conversion rates and EBITDA. I think we've reminded shareholders that the conversion rate is a function of mixed only versus any pricing or margin pressure. Australia and Europe had stronger years in terms of GDV growth, as did North American, albeit North America has a wide range of conversion rates on GDV from 5 basis points to 10 basis points for B2B processing deals only to 20 basis points to 30 basis points for our reloadable program with LuLaRoe through to 450 basis points for non-reloadable. The average is 80 basis points, but there's a fair swing in the mix there.

Page 12 [sic - page 13] is an attempt, I think this came out pretty clearly to us in the half year review, in the half year results when we were talking about GDV for LuLaRoe declining in the December, January months from the preceding months, and the headline of that slide is not all GDV is created equal. The reason for that is exactly as I said before, when you look at - really it's a function of mix. This isn't here to try to confuse anyone, but page 12 [sic - page 13] looks at what the conversion rates would be if we excluded B2B processing deals only, which are in the 5 bps range, and you took out the volume that comes from LuLaRoe that we don't earn revenue on. Shareholders would understand that a lot of volume that goes through LuLaRoe we only earn - EML only earns revenue on that when funds are spent on non-LuLaRoe product.

As you can see the North American revenue conversion, if you take those two things out would increase from 80 basis points to 425 basis points. The Group would increase from 105 basis points to 250 [sic - see slide 13 - 260] basis points. At the end of the day the revenue is the same, the margin is the same. Optically I think we have to do - we probably didn't do a good job in the first half of explaining that to shareholders so that they understand if there's a GDV downturn in customer X - if customer X is 5 basis points, the Group if it lost its entire processing deal in the B2B space, could lose one-third of its reported GDV, and lose \$1 million out of \$70 million in revenues. Again, we often talk about the diversification in the business, and it's important just to continue to restate that for shareholders.

In the mall space, certainly the volume, the GDV, the client there year on year - I can talk in the outlook about just some tactical things we're doing, which will mean that the GDV decline rate will not be mirrored in the revenue and the margin decline rate, but I'm happy to take questions on that at the end.

One page 14, we see that reloadables are now 50% of GDV, it's taken - I think it might be the first time we've hit that benchmark in the time that I've been at EML. On page 14, I'll hand it over to Bruce for the financial commentary, and then rejoin you for the outlook.

Bruce Stewart: Thanks, Tom. Morning, everyone. I'll take you through section two, the financial overview, and those are on slide 16 through 25. It'll probably take around 10 minutes to get through that. The profit and loss is summarised on slide 16, so just to reiterate Tom's point, our revenues is a function of the gross dollar value, which are the funds that are loaded onto our cards in the year. The gross dollar value was up 53% to \$6.8 billion, as we've shown you on slide 14. We've experienced growth in the gross dollar value across all our geographic segments, and all our three product lines, but specifically reloadable, which was up 163% in this financial year.

The \$6.8 billion on GDV has converted to revenue of \$71 million, which is a take rate of 1.05%, compared to the prior year of 1.3%. Revenue has grown 23% in the year. The growth in revenue has come across the board, predominantly organic, so the year on year comparisons are not impacted by acquisitions in FY18. The conversion of the GDV to revenue at 1.05% is driven by the product segments in each region, and in FY18 was impacted by the change in business mix.

Australia's conversion rate went from 1.5% to 1.2%, because of the roll out of the reloadable salary packaging vertical at the beginning of the financial year. We generate significant GDV in this reloadable vertical, but our revenue take rate is not as high as the gift vertical. The strategy in Australia has always been to focus on reloadable, because the revenue is far stickier, and there's far more intellectual property and growth involved in reloadable. That growth in the reloadable results in Australia experiencing an increase in revenue of 79%.

Similarly, due to the growth in the reloadable in Europe, Europe's take rate has gone from 4.9% in the prior year, to 3.6% but we've also experienced growth in revenue in Europe of 39%. We would expect a revenue growth of far more than that in FY19 as we're going to roll out both non-reloadable and reloadable programs that we've signed in FY18.

North America's conversion rate has gone from 1.1% to 0.8%, and that's due to an increase in the GD volumes from the supply payments and the LuLaRoe program that we have.

The different components of the revenue we've outlined on slide 18, so as we move into the reloadable space, the predominant element of the non-reloadable revenue streams, like breakage and set up fees, will continue to decline as a percentage of total revenue. In FY18 37% of revenue is breakage, which compares to 52% in FY17. Directionally the annuity streams of revenue being interchanged, transaction fees, and interest income, they will continue to increase as a proportion of the total revenue, as we expand the reloadable products, and also of course as interest rates continue to increase.

Against this though, we're still going to continue to target non-reloadable mall segment in Europe, because there's still enormous opportunities available to us. Depending on our successful we are in that of course that can have an impact on the rate in which breakage and set up fees get diluted as a proportion of the total revenue.

On slide 20, we've outlined the gross profit, which increased 20% to \$53 million, and we've earned that at a margin of 75%. It's a healthy gross margin, it's been consistent as our revenue has grown over the years. We have two main cost of sales, the first being plastic which gets produced by external manufacturers, and the second are external bank sponsor fees that we require in the countries where we don't have our own regulatory licence. But as our business and our expertise has grown, and certainly as regulations have allowed, it's become more practical for us to get our own licences, and we did that in Australia in 2017, we became a principal member of Mastercard, and we're starting to issue our own products. Recently in Europe with the acquisition of Perfectcard, we have our own e-money licence.

In those two regions we can self-issue, it's going to take some time to transition the programs that have already been issue by external bank sponsors to our own licences in these regions, but certainly it's an area of focus for us in the

coming year. Even as we grow our revenues, directionally we believe our gross profit percentage will continue to increase, because we're going to be bringing more of the payments function inhouse.

Slide 20 also breaks out the overheads into the key categories. For the investors who have been with us a while, they'll understand, we're not a capital-intensive business, the bulk of our overheads are staff costs, and the key categories of our overheads are very consistent year on year, as a proportion of the total overheads. We ended the financial year with 184 staff, so that's up 14 on the prior year, despite increasing our GDV by over \$2 billion, and overall overheads have only gone by 9%, which is obviously significantly less than the increase in revenues of 23%.

A couple of things to call out on the overheads that were a little unusual. In the current year we paid a formal staff bonus of \$400,000, which we've only done for the second time in the Company's history. We also incurred \$300,000 on acquisition costs. The bulk of that \$300,000 was on acquisitions we actually needed up walking away from. We could have elected not to pay the short-term incentive, and not look at all the acquisitions, but that would have moved our EBITDA from the \$20.8 million we reported to \$21.5 million, which would have been outside of all the analysts' ranges. But it's certainly important for us to ensure we retain the best staff, and we're very diligent about the acquisitions we close on.

The other thing to emphasise is that a large element of the staff activities are actually working on building new products, and signing up new clients. The expenditure that's running through the profit and loss today is really going to result in revenues in the future years. The fact that our overheads have increased at a lower rate than the gross margins has meant that our EBITDA margin has grown from 25% in FY17 to 29% in FY18.

The EBITDA we show on slide 21. Australian EBITDA has grown from negative \$0.2 million to a positive \$3.5 million in FY18, so it's the first year that Australia has generated positive EBITDA since we listed in FY12, which reflects the fact that Australia has now secured the client base that gives it the scale to outgrow the fixed cost base that is inevitably required for a regulated payment business like ours. We expect the growth in Australia to come from the same segments and in new verticals like neobanks in FY19.

Europe grew its EBITDA 25% to \$5.6 million, of course it doesn't include the impact of the new German mall deal, and a number of online gaming customers that we've announced but not launched, like GVC, Fortuna, Betsson. So we expect FY19 to be significantly better than FY18 for Europe.

Finally, North America's grown its EBITDA 14% to \$11.6 million. We've owned the US business for two years now, we paid \$46.5 million and it's generated us \$11.6 million in the second year in EBITDA. So whilst we expect it to launch more reloadable programs by this stage, it still represents a good multiple around four times on forward, as we've illustrated on slide 11.

If we move to the balance sheet which we've put on slide 22. Again for the investors, our business model doesn't result in significant receivables because in most instances our clients give us a float of money up front and from that float we extract our fees. Also, we don't have significant fixed assets that we require to operate our business. So the balance sheet for us typically will be spare cash that we've generated, a lot of intangibles that have resulted from the five acquisitions we've made, investments we've made that we don't consolidate, and then the disclosure that we need to make when we self-issue products.

We've got \$19.8 million in a breakage accrual at the end of the year, that's increased by \$6.5 million over the prior year. So the breakage accrual represents the remaining portion of funds on the gift cards that we've previously sold and we've received the funds for, that we expect to convert to cash in the future. This \$6.5 million increase in the breakage accrual was organic growth in the United Kingdom and North America. We've aged this accrual on slide 23, so you can see the timing of when the \$19.8 million is going to convert to cash. You can see that 63% of our breakage accrual is expected to convert to cash within 12 months, and we've an element of the accrual which is \$7.36 million, that'll convert after 12 months.



The reason why it doesn't all convert within 12 months is predominantly caused by a North American business. Approximately half of the North American programs cannot expire a card after a set period like we do in Australia and Europe due to regulations. So in this case we charge a monthly fee against the unused balance after a set time, so typically after 12 months of when the card was initially loaded. So it'll take around 24 months from the initial load to capture the bulk of the breakage, but we can have a very small tail element that could take up to 48 months to convert to cash.

The other half of our North American programs don't expire a card and they also don't charge a monthly fee after a period. This is again due to regulations. In this case we are allowed by the regulations to have this pool of unused funds actuarially assessed, and on that basis, we claim the breakage. This method we call derecognition and it typically results in the bulk of the breakage being banked as cash within 12 months of the initial load. We've got a \$19 million deferred tax asset, the bulk of that results to carry forward losses we have in Australia, and there's some very small amounts in Canada and the UK. So \$12 million are Australian tax losses, the tax effect at 30% on \$12 million would mean that we've got approximately \$40 million in Australian taxable income that can be shielded against future tax payments.

The other receivables of \$25 million that's made up of a number of separate items. We've got \$5.2 million for our equity investment in PayWith, and we had an additional \$700,000 in a convertible note we provided them in FY18. So in total we own about 17% of PayWith and we're actively working with them on a number of programs that have loyalty and mobile features, including the salary packaging programs in Australia.

The other thing to call out on the other receivables is that we have started to self-issue in Australia. We have a customer deposit of \$6.8 million in there, which is offset by a \$6.8 million liability in the other liabilities. So you're going to see this more often with us, we're required under the Accounting Standards to gross up our balance sheet where we self-issue the program.

In a similar vein to the \$6.8 million which appears as an asset and a liability, we've also got a \$67.7 million asset which we show as a receivable from financial institutions, which is the money that's sitting in a bank our customers have given us. That's directly offset by liabilities to stored value account holders, which again is our acknowledgement that the money belongs to the cardholders. It's the same concept and it's in instances where we're self-issuing.

We're going to continue to increase the element of the business that we self-issue, instead of using third party banks. The gross ups on the balance sheet are going to continue to grow. Another way to think of it is as at 30 June we had \$411 million in stored value, which you'll be able to see on slide 29, and right now we're self-issuing \$74.5 million of that, so we're bringing that on our balance sheet as an asset and a liability.

The other thing to call out in other liabilities is we've actually accounted for a contingent consideration for the Presend earnout. We've assumed they're achieve their earnout. We paid a modest cash amount of \$1.3 million for Presend when we bought them, the rest is all in an earnout, so should Presend generate their EBITDA targets we've a maximum earnout to pay of \$6.9 million. So of course, if they don't achieve that we won't be paying that earnout to them as well. Then the cash sits at \$39 million. We generated cash from operations of \$6.4 million for the year, we've reconciled that on slide 25 because the investors will want to know the reconciliation between our EBITDA and our cash generated from operations.

On slide 25 on a full year basis our EBITDA is \$20.8 million, and our operating cash flow is \$6.4 million. The difference between the two numbers is \$14.4 million. Now there's always going to be a difference in our EBITDA and our operating cash flow due to the fact that breakage income is booked ahead of the cash being collected, but the difference should only be material if the gift business is growing significantly year-over-year. The \$14.4 million was really caused by other factors that led to a disconnect.

The first element that accounted for the \$14.4 million amounted to a \$7 million difference, and that was caused by us receiving cash on a program very late in FY17 and not paying it to the client until early FY18. That resulted in FY17 operating cash flow exceeding our EBITDA, as we've shown on slide 25. Something that we explained previously, it's a one-off timing difference that's certainly unlikely to reoccur to that extent.

The second element that accounts for the \$14.4 million difference relates to a \$2.4 million payment where we paid an upfront cash incentive to select clients in the current year in return for securing long-term contracts. We expense this cash payment through our EBITDA over the period of the contracts which is typically five years, whereas the cash is paid in the first half in a lump sum. Those two elements total \$9.4 million, and if you exclude those that would result in an underlying operating cash flow of \$15.7 million as opposed to \$6.4 million, which is roughly 75% of our FY18 EBITDA. The balance, the difference is really just a build-up in breakage.

Finally, in terms of cash flow from investing activities, that was \$6.6 million. We paid \$1.3 million in cash for Presend Nordic. We updated a lot of our physical computer equipment, that was \$1.3 million, and we capitalised some internal development on our product suite for \$2.9 million, which is a proportion of our EBITDA is very consistent with the prior year where we capitalised \$1.3 million.

So slide 24 we've outlined some of the products we worked on over the years, of course the added benefit is the fact that we qualify for R&D incentives in Australia and the UK and now of course in Ireland. That's it for the financials, I'll set you back to Tom who will take you through the outlook.

Tom Cregan: Thanks, Bruce, thanks, everybody. I won't take too much time, so we can free up time for questions. ON page 27 and 28 we're outlining that in FY19 and beyond we'll be moving from a geographical reporting basis more to a product level reporting basis, which we think investors will just find easier to follow and we think it helps simplify our investor narrative, which is something that we've continued to try and improve over the years. As you can see, with 1200 programs in 21 countries in eight different currencies, and we expect that number to increase over time, what we want investors to understand is the fundamentals of the business instead of the differences between geographic regions. Why is interchange higher in one market and not the next? Why can we self-issue in one market and not the next? Why do gross margins vary by 2% or 3% because transactional costs might be higher in one market than the next.

Really for us we look at ourselves at a product business and we want investors to understand the fundamentals of the business which are as we said earlier that we're able to demonstrate significant GDV and therefore revenue growth from programs that are already in-market, paired with programs that have been launched. It's a diversified portfolio of customers that helps us manage risk. There will be, not dissimilar to your own businesses and your own portfolios where you will have investments that outperform, underperform, neutral, high growth et cetera. Across 1200 customers and counting we will have variance in that portfolio too, programs that are up, programs that are down, programs that are neutral. At the end of the day the GDV growth for us is really the portfolio approach, which helps us grow and helps us manage risk.

At the same time our expense growth continues to track lower than revenue growth, which is demonstrated in the benefits of scale. Margins really haven't moved from 75% for several years and we think that increases over time with self-issuance, and we have a strong balance sheet. They're the fundamentals I think of the business and what we're going to be communicating going forward. In addition, if you think outside of the B2B processing deals in the US and the LulaRoe program, the majority of product economics of Reloadable and non-Reloadable, are very similar. Whether they're in Norway with Instabank or they're in Nebraska or they're in New South Wales, there's very limited variance there. So we think that makes a lot more sense to communicate that on a product basis.

On slide 27, 28 is how you'll see us start to report from the AGM when we provide guidance but also on a go-forward basis. If people want geographic information, it'll be available in the annual report because we still have to report on



goodwill values and carrying values of the assets and so forth. But from the way we will be communicating it to the market will be as you can see.

On slide 29, just a couple of comments really in relation to outlook. As you've seen we've announced a number of executive hires in the business, including a couple in the US and there will be additional ones in the US. Really in order to move that business forward in reloadable, and there are programs now in markets such as Caesars, which has only been in market for six weeks, but in order for that program to achieve its potential and for us to grow in reloadable, we needed to bring into the business people whose DNA is reloadable. I think the history of that US business was that the history of their DNA or the base of their DNA was gift and non-reloadable. Certainly, Brandon Thompson joining the business, James Jaworski joining the business and others, are coming in with a clear mandate of growing reloadable and making sure that that becomes a far more significant part of our business as we go forward.

We talk about virtual account business, I'll talk about that in a second, and another question is often around stored value and how we're positioned for interest rate rises, so we're just attempting to clarify that there. So as fed rates move and other rates move, investors and shareholders could work out what the quantum of that would be.

On page 30, that is an important slide. The AASB15 standards support our historical approach to accrual on breakage, and that becomes the norm globally. But as opposed to breakage being accrued in the month of sale, it accrues over the sale month and in the few months following until the bulk of the card has been used. We've been asked by shareholders what the impact of that is, it'll have very minimal impact on our FY19 results, but what it will do, and this is a fundamental message for people to understand, is it will smooth out our seasonality.

So if you could imagine in December when the bulk of gift cards are sold, we're accruing 100% of that breakage. We've always had a skew of revenue and EBITDA that's roughly been two-thirds, one-third if you want to think of it in that respect. Which creates these false impressions with investors or others that have talked to me to say why did you have such a good first half of the year and then the second year the business fell off the cliff? Because there's only one Christmas, so that's the simple answer to why there's been the seasonality variance. That seasonality variance will basically disappear because you'll be selling gift cards in November December and you'll be accruing that breakage in December in January and February.

So we're going to make sure that investors understand that point clearly, particularly when they see the first half results. It has no impact on the full year but I think it actually helps smooth out that seasonality and makes the business look a lot more predictable I guess you would say, as the year goes on. That's something we'll just continue to reiterate so that's well understood.

The final slides, 31 and 32, really just talk to some of the hires we have bought on, and some of the Board members that have joined during the year that have already made a pretty significant contribution to the business. With that I'd like to thank you all for attending and open it up, operator, to any questions.

Operator: Thank you, Tom. Ladies and gentlemen, we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key. Your first question comes from Nic Caley from Baillieu Holst, please ask your question.

Nicholas Caley: (Baillieu Holst, Analyst) Hi, Tom and Bruce.

Tom Cregan: Hi Nic, how are you doing?

Nicholas Caley: (Baillieu Holst, Analyst) Good, thanks. You might have said it, I'm just trying to reconcile in my own mind the reloadable low GDV first half v second half, it's \$1.8 billion down to \$1.5 billion. Is that the bias to Australian wagering?

Tom Cregan: Just repeat that, Nic. So why was the GDV...

Nicholas Caley: (Baillieu Holst, Analyst) The GDV reloadable from first half went from \$1.8 billion to \$1.5 billion in the second half.

Tom Cregan: LuLaRoe is what it was. So that was the...

Nicholas Caley: (Baillieu Holst, Analyst) Okay, no I've got it. You've talked about challenging conditions in North American malls, it doesn't seem you're seeing the same challenging conditions in Europe?

Tom Cregan: Quite the contrary actually, certainly ECE, a large number of the Austrian malls, Italian malls are still pretty backwards relative to the US, so they're still on paper vouchers or they're on plastic gift vouchers so there's still a lot of inherent growth. In fact, we think when we convert ECE we get a lift in volume just by moving it from a paper-based program to a regulated program. But this isn't the same kind of eCommerce impact in Europe that we see, and the malls that we have over there are what we would consider here to be tier 1 properties. The Hammerson was in the ECE certainly and a lot of those portfolios. Again, we don't see the same kind of decline or impact in our Canadian malls because Cadillac Fairview, Ivanhoé Cambridge and again they're tier 1 REITs. The impact is just more in the US because what we support is mainly strip malls and they're the ones that I think really get hurt as eCommerce starts to take out the traditional retailers, the Toys R Us's and the others.

What we've done in that business, which we were doing anyway, is moving some of those programs to a higher interchange bin in the view that that is a structural decline. I don't think that those strip malls are going to make a Lazarus-like comeback anytime soon. As they start to decline or continue to decline in GDV, they've been moved onto different cards that have a higher interchange rate, and the view is that as GDV drops, our interchange revenue will increase and so we can mitigate that so that it's not a one-for-one impact in GDV loss equals dollar loss. We're just doing that tactically with the US malls that we have in the portfolio.

Nicholas Caley: (Baillieu Holst, Analyst) Great, that's all I had.

Operator: Your next question comes from Killian Murphy from Petra, please ask your question.

Killian Murphy: (Petra Capital, Analyst) Hi, morning guys, just two quick questions from me please, maybe one for you Bruce. In terms of your expectations for self-issuance, what should we expect from gross margins maybe in the next two or three years as you roll out those programs in Europe under your new eMoney licence? Then just maybe also staying with Europe on GVC, have they given you any indication yet what brands within their portfolio will launch first, and what geographies they'd be launching those in?

Bruce Stewart: Thanks, I'll take those two separately. First the question on our margins as we self-issue. Admittedly the bulk of our cost is still plastic, so we're making a 75% margin. The element that is paid to the external banks is not large, so once we've transitioned these programs away we'd expect a margin to get to about 80%. The reason why it's going to take a little bit of time is because a lot of our salary packaging cards have already been issued by Heritage Bank for example. It'll be a little bit of discomfort for people if we were to cancel all those cards and issue them under our own licence, so it may take some time to go from the 75% up to the 80%.

But certainly within a year or two that's the expectation. We'd love it if plastic disappeared as well frankly, but that's just never going to happen. I think realistically 80% is about where we'd expect to get, probably take us two years but I think plastic's going to be around for a long time, so we're probably going to struggle to get beyond that.

So that was your first question, the second one you asked about GVC and their rollout. We're working with them. It's obviously very sensitive because we support them and a number of their competitors. Whilst we're looking certainly for

launch in FY19, we couldn't really be more specific than that, Killian, because it's market centred. Obviously if we were to work with them and be talking about deadline dates, all the competitors would be looking at that as well. One we've launched we'll obviously keep the markets up to date, but until then we couldn't really provide much guidance in terms of launch dates other than certainly it's going to be FY19.

Killian Murphy: (Petra Capital, Analyst) Okay great, sorry for this, can I just clarify one thing? Just the 80% number you said regarding margins in maybe two years, is that a growth figure?

Bruce Stewart: Yes, across the group.

Killian Murphy: (Petra Capital, Analyst) Brilliant, thanks very much.

Operator: Your next question comes from Mark Bryan from Wilsons, please ask your question.

Mark Bryan: (Wilsons, Analyst) Morning Tom, morning Bruce, a couple of questions if I may. Just firstly it's been obviously a big six months in terms of new deal signings. With regards to ECE which is a major underpinner for 2019, is it possible you could just dig into a little bit more detail about what actually has to happen physically over the next couple of months to get that project up and running in time to capture the Christmas market? Particularly interested to understand just how broadly it's going through the ECE Group.

Then secondly just on LulaRoe, obviously it was a step down second half on first half as you've alluded to previously, so no surprises there. Just in the terms of the last couple of months, Tom, has that deal been stabilising?

Tom Cregan: Sure, I think we'll go backwards, I'll answer the LulaRoe and get Bruce to go through the ECE piece. I think if you look at the GDV percentage on - if you look at LulaRoe, so the load value last year, the total GDV. It's important, the reason we take GDV is even if it's non-revenue related GDV, if it's volume going through our processor that we're not charging revenue on to LulaRoe for example, we have to use that number because it's non-subjective. If we start to report on GDV that's oh well we think we should include this, we think we shouldn't include this, it becomes very subjective. LulaRoe is every dollar, in fact all of those programs are every dollar going through our processor, because that we can validate with 100% certainty.

LulaRoe was at one point \$9 billion in GDV last year, of which \$1.56 billion was effectively non-revenue generating. So the variance being \$340 million, \$400 million, at interchange rate of 18% or thereabouts. The spend volume is down on LulaRoe and the conversion rate is up. So from a revenue point of view it's the same today in August that it was in February. The percentage on which we actually generate revenue is up, even though the headline GDV is down. On a headline basis if you wanted that number it's probably about \$1.25 billion, \$1.3 billion, so it's still significant. But net debt we're making the same.

Mark Bryan: (Wilsons, Analyst) That's helpful thanks, Tom.

Bruce Stewart: On your question, Mark on ECE. The good news is our gift card program in terms of the dependency we have on the client is not as strong as we have on say an online gaming program. Often the reasons for the delays in our online gaming program is outside of our control. The client is the distributor of the program and so they'll have to do some significant integration into their existing front-end systems. Now with the gift cards there's nothing like that. We've got through all the big challenges, which is ensuring that we're the issuer of the program, we've signed the deal.

So, really all that happens now mechanically on a gift card program is we go to the malls, and they have roughly 90 different malls. They access all the software through their existing computers on the internet and they use all their existing infrastructure, so when they were accepting debit cards and credit cards that's all linked to their system. Literally all that's got to happen now is we've just got to train them. It's quite easy to do that, we have some account

managers, we have what we call the trainer program so we'll take three or four key ECE people and they in turn will then go and train their own people.

We're confident now about the October launch. The cards have already been ordered, the design has already been chosen and there's no mechanic like we have in the online gaming where they need to integrate into their own front-end. It's all in our control and so really not a lot of complexity, there's an awful lot of work but there's not a lot of complexity and there's not a lot of hurdles we have left to roll this thing out in October, so that's good news, [unclear] reloadable program now.

Mark Bryan: (Wilson, Analyst) That's really helpful, thank you. So the anticipation is to try and get all of those 90 up and running in time for Christmas, is that still the central plan?

Bruce Stewart: That's our plan, yes.

Tom Cregan: Sure.

Mark Bryan: (Wilson, Analyst) Okay, thanks both of you.

Operator: Your next question comes from Joshua Baker from Paragon Fund Management, please ask your question.

Joshua Baker: (Paragon Fund Management, Analyst) Hi guys, just a couple of questions to follow up on the [QVC]. Betback was initially a deal on its own, now it's under the QVC brand, is that one of the ones you're alluding to dropping in FY19? Or is that still considered separate?

Tom Cregan: Yes, it's part of the GVC group. It was always the smallest one of the lot, I think it only had, I can't remember at the time, I think 100,000 customers in that range versus GVC that's got 20 million of them. But it's now in the GVC mix, yeah.

Joshua Baker: (Paragon Fund Management, Analyst) Just on the Europe gift cards, you talked about being a one-stop shop now, you've got self-issuance, banks are stepping away. In terms of competitive landscape there, does that mean you're pretty much the number one or leading option for anyone looking to upgrade or review the gift card programs?

Tom Cregan: I would think so, yes. I think we've now got - when you add Present and even Perfectcard had malls in Ireland as well, and you add our existing portfolio, we've got over 300 tier 1 properties there. The nearest competitor we have has - I couldn't talk about their numbers on the call but significantly less than half, that's really the only other specialist provider in the European market. I think being able to provide all those is important, and we have seen in some countries, well one country in particular where there was a bank who was the main issuer for all of the gift cards in that country and that bank just elected it was no longer issuing prepaid cards anymore. The customers in that market are scurrying to find a - to provide another solution provider.

I think what they'll look for is someone who can do all three, because it's obviously our core business so if we're issuing it we're not going to turn around at some point and decide not to issue it. It just gives them peace of mind that - ECE is a five plus five-year deal. If you can imagine part of it is they're German, but part of it is they want certainty over a very long period of time that the listing won't have to change. I think that does position us really well for [unclear] to be the go to market.

Joshua Baker: (Paragon Fund Management, Analyst) Just one last question, on the US business revamped management team reloadable mindset, what sort of timeline do you think we can expect for them to get settled, follow-up opportunities, chasing the opportunities and we'll start to see some traction there?

Tom Cregan: I'd say probably the end of FY19 and then I think historically sale cycles are always going to be that long. I'd probably put it in that ballpark. They do come with them, both those guys who had worked with me previously in the US worked in Reloadable for 10 years. What they bought to the table day one was a lot of existing relationships and a lot of existing knowledge about the market and where the opportunities are. So they hit the ground running and they have hit the ground running but I'd still say sales cycles being what they are, we'd be looking for them to be showing progress on Reloadable by the end of '19.

To me that's an okay thing. Frankly just being realistic about it not all of these regions will always grow linearly at the same point at the same time because of sales cycles and implementation cycles and what have you. Australia had a phenomenal year last year with salary packaging and other programs that are bought on, and the EBITDA increment is pretty clear. Europe had a good year but I think we'll have a phenomenal year this year with ECE, Presend, Perfectcard and the benefit of other growth there. We're not reliant on the US to go gangbusters this year, if they'd plant the right seeds and they get the right deal flow happening on Reloadable, then that can become the growth driver in FY20 and beyond. I look at it that way and if it takes them a year it takes them a year.

Joshua Baker: (Paragon Fund Management, Analyst) Thanks for that.

Operator: We are taking one final question, your last question comes from Owen Humphries from Canaccord, please ask your question.

Owen Humphries: (Canaccord Genuity, Analyst) G'day, guys, and congratulations on the year, it looks like you're providing a step change into earnings for next year. Just a question around those acquisitions that you look liked you've passed and done a bit of DD, can you give us a colour for which regions and which divisions you've been focusing on? Obviously it's been part of your heritage, but just working out where you're focusing your mindset?

Tom Cregan: In a general sense we'd be given deals every week to look at to be honest from every - I think having done three or four deals now we're on the rolodex of every investment banker in the world, they're sending us different opportunities. We look at all of them because all I think there's things you could learn about them, whether it's business model, whether it's how they communicate their story, there's always something to learn these things.

It's hard to provide any solid answer to that question other than the fact that Presend was largely a geographic bolt-on opportunity in a market that we had no presence in. I can't really think of other markets in Europe that we don't have a presence in. Perfectcard was a licencing, really was a regulatory and licencing objective where we wanted to become a self-issuer. I don't think we're out there hunting any particular deal really, we're out there looking at segments that we can grow into. I would put them more as opportunistic, Owen, than we look at it as any glaring weakness we're trying to solve. We're not looking at that company saying we have a product deficiency here, we need to go and buy company X to fill a product deficiency. Or there's a market gap here where we've going to fill that.

A bit more opportunistic which is why we pass on most of them. The ones, even Presend and Perfectcard, as I said before whilst they're not going to get the market pulse racing, they're not \$100 million big bang deals but they're very strategic, sensible, logical, low cost, low risk deals. The one that we - we put a lot of work into one last year in Europe, and it's now owned by a different company so I probably wouldn't want to go into it too much, but we spent six months there, \$300,000 was most of the DV on that business. At the end of the day we just didn't feel that management were going to deliver what they said they were going to deliver. I think when you've got a business like ours that is a pretty diversified business, faith in the people is critical.

We spent a lot of time, I mean Perfectcard we were talking to Nikki Evans for the best part of a year and a half to get to know her, get to know how she operates, get to know what her ethics are, get to know what her values are, because we just don't want to take the risk of buying a business and creating a problem child for ourselves unnecessarily. We take a long time to get to know those guys, then that particular deal in Europe at the end of it I just wasn't confident that they were capable of doing what they said they were going to do.



We'll always be looking for different opportunities, people are always sending them our way. It'd be more opportunistic, it'd be some market vertical we might not have thought of that we think has some kind of significant growth ahead of us where we think an acquisition might propel us forward there as opposed to greenfields. But there's no M&A plan per se that says we've got gaps here, there and everywhere we need to go and plug.

Owen Humphries: (Canaccord Genuity, Analyst) Good one, and you guys don't have a debt facility in place, is that right?

Bruce Stewart: No, we've obviously got bankers that we're close to, we deal with. We've explored that before and we've come pretty close. We're confident if we needed to but no, nothing in place at the moment, Owen.

Tom Cregan: For that deal last year, Owen, we did have debt finance lined up, so we are considered bankable from that perspective in terms of a big four bank doing the DD on us, considering that it's a safe bet. We didn't pursue it therefore we didn't need to draw it down, but it was there to go.

Owen Humphries: (Canaccord Genuity, Analyst) Just a last question around the investment in the second half, the capitalised costs and obviously you're investing in technology and your platform which is good and great, but is that a spend now where you can see going forward? Obviously, it's elevated versus previous periods on an absolute term, but is that something that we can expect going forward, that level of investment?

Tom Cregan: I think it'll probably fall, in fact it will fall in FY19, but the reason we did that was to enable us to ingest the Perfectcards and Presends and get the synergies out of them. There's a lot of M&A deals are based on these synergies that never materialise, and we can't afford that to happen. We acquired Present in January and it was fully integrated into the EML platform at the end of August, in fact, middle of August. All of what they were paying third parties to do, which was paying an issuing bank in Iceland of all places, paying third party processing, paying customer service, all of that stuff disappeared, which is how it goes from a \$300,000 earnings to a \$1 million earnings at a minimum, year on year on year, minus growth.

It's the same with Perfectcard, they've paid third party processing to a company called FIS, so the work we did was basically say if we are to do acquisitions, the ones where we've proven ourselves adept is we're buying at lower multiples, converted them across to our technology and getting rid of those costs. We think we've done the bulk of that work, really it's largely done, so I'd expect that number would be down in '19.

Owen Humphries: (Canaccord Genuity, Analyst) Great, well done guys.

Operator: Ladies and gentlemen, I would now like to hand the conference back to Tom. Please continue.

Tom Cregan: Thanks, everyone, much appreciated, thanks for attending and look forward to seeing quite a few of you over the next few days, and good luck with the rest of your results for the season.

Operator: Ladies and gentlemen, that does conclude our conference for today. Thank you for participating, you may all disconnect.

**End of Transcript**