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Investor Presentation - Transcript

EML Payments Limited (ASX: EML) is pleased to provide investors with the following transcript of its briefing to shareholders and the investment community held on 19 February following the announcement of its FY20 Interim Financial Results.

About EML Payments Limited

With EML, you will be empowered with more control, transparency and flexibility over your payment processes. Whether you serve businesses or consumers, EML makes your payment processing more efficient and secure from start to finish, while helping you improve customer service and increase brand loyalty.

Our portfolio offers innovative financial technology that provide solutions for payouts, gifts, incentives and rewards, and supplier payments. We issue mobile, virtual and physical card solutions to some of the largest corporate brands around the world, processing billions of dollars in payments each year, and manage more than 1,500 programs across 23 countries in North America, Europe and Australia.

For more information on EML Payments Limited, visit: EMLpayments.com

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Event Transcript

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Title: EML 2020 Half Year Results Presentation
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Start of Transcript

Operator: Rob and Tom, you're allowed to speak. Please go ahead.

Tom Cregan: Thanks, Kevin. Good morning and welcome to the EML Payments earnings call for the first half of the 2020 financial year. My name's Tom Cregan, CEO and Managing Director of EML Payments, and I'm accompanied on the call by Rob Shore, Chief Financial Officer for EML Payments. We'll take you through a summary of our first half and then open it up to the floor for questions with the time remaining.

On slide 2, moving straight into the presentation, on slide 2, in the notice section, you'll note that the results today exclude any contribution from PFS, which we announced to the market in November last year. There are customary closing conditions on this transaction, as outlined at the time, including regulatory approval in the United Kingdom from the FCA and in Ireland from the CBI, and as of today, the transaction has not closed, so PFS is not included in these results, nor is PFS included in our guidance at this stage. Once PFS closes, we'll announce that to the market and then provide updated guidance, based on what we believe PFS will contribute to EML for the remainder of the 2020 financial year.

Slide 3 is our mission statement that we include in every presentation, because it's key to our strategy and brings clarity, as it relates to existing programs in market and new programs that have recently launched, and I'll go into more detail on this in later slides.

Slide 5 is - really provides the highlights for the half year. GDV increased 60% over the prior comparative period to $6.62 billion, with significant growth in our VANs vertical. Revenue increased 25% over the prior comparative period to $59.2 million. This excludes $6.8 million in revenue under AASB 15, which we booked in the second half. Group EBITDA increased 42%, to $19.7 million, driven in part by an improvement in gross margin, as we see a continued shift to self-issuance. And Group NPATA increased 70% to $16 million in the half.

We did not include an NPATA result in our 2019 half year financial report, but we did introduce it in our full year FY20 result, and we'll continue to report this metric going forward. NPATA obviously includes stock compensation expenses, for those who focus on that, includes tax and excludes the cost of acquisitions, which makes sense, given it's been, and will continue to be part of our strategy, and obviously this year we'll incur significant transaction costs related to the proposed PFS acquisition.

Slide 6 is a summary of the highlights again, just during the first half, which include record first half financial results for the Group, growth in revenue in each of our three operating segments. Our revenue conversion rate declined to 89 basis points in the half, but as investors will understand, that's a factor of business mix, and it excludes the $6.8 million that I mentioned before, in breakage revenue, which will be reflected in the second half, under AASB 15, and correspondingly, that $6.8 million corresponds into gross margin and EBITDA, given that breakage has a gross margin of 100%.

The integration of Flex, which we acquired late in the 2019 financial year, we launched our Mobile Pays functionality in all regions, and we launched what we call ControlPay, and we'd previously called Delegated Authority. This is where we partner with various companies in the financial sector, in the alt lending sector, for the provision of real time credit

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decisions that are driven by the lender. So a lender is approving an individual for a loan or for credit of some form, and then, in the actual transaction flow itself, approving or rejecting that transaction.

Finally, we announced and funded the acquisition of PFS, our largest acquisition to date, and one which transforms the financial profile of the Company, to generate a majority of its revenue from GPR or relatable products, and correspondingly, reduces breakages and percentage of revenues below 20% and possibly as low as 15%.

Operating cash flow of $8.1 million for the half, which was largely impacted by the payment of our short-term incentive plan for FY19, which was about $2.5 million, and we had some transition fees for new partners, which cost us $1.5 million. We've had transition fees in the past, and shareholders should expect that we'll have them in the future, from time-to-time, given it's securing future revenues and margins that are many multiples of the expense itself.

Slide 7 highlights a number of new program launches and signings in the first half. In terms of some of the programs launched, the first three, Nova, Tripla and Ingka are some of the largest malls in the Nordics, which continues our expansion in that geographic region, and Glanbia and CleverGift in Ireland and TCN in Australia are companies using our Mobile Pays solution for incentive gift cards. We launched payout programs for SuperSport in Croatia and StarCasino in Italy, our first launches in those countries. StarCasino is a subsidiary brand of Betsson, so that's now the second country that we've launched programs with in Betsson, the first one being Sweden, last year, and we launched RoundPeak, which is a lotteries payout program in the US.

Most investors, I think, would recognise MoneyMe and their logo, given their successful IPO in December. We launched a program with them, supporting their freestyle lending product in December, where, as I mentioned before, consumers can apply for and access finance, and then use their mobile device to facilitate any and all of the transactions drawing down on those funds. This follows on from our launch with Instabank in Norway last year, and I think it's fair to say early results are very encouraging - in a positive sense, because MoneyMe reports - and I'll talk about this a little bit later - as they report their loan book, there'll be a good way of us measuring success as to what percentage of their loans are being facilitated through programs that EML are supporting.

In terms of contracts signed but not launched, we signed a contract with ECE for their centres in Austria, and expect that to launch in the second half of FY20. We announced our contract with Simon Malls, the largest mall operator in North America. That launched in mid-January, so it's now active in approximately 150 of their malls in the US. We've signed a contract with a company called Paygo, which is the largest B2C reloadable prepaid company in the Nordics, and we also announced that we'd won the contract to supply New South Wales Health with up to 50,000 salary packaging cards, and further cement our leadership in that segment in Australia.

On slide 8 we show the segment performance across the three segments. In our gift and incentive segment, GDV was $840 million in the half. This is slightly over a billion for the full year in 2019. GDV growth was weaker in Germany and the UK, compared to the prior year, but offset by growth in Eastern Europe, Ireland and Dubai. As we've stated previously, the portfolio model that we've been building doesn't require us to grow in every country, every year, for the overall segment to improve, year-on-year, and I think we saw that this year. Revenue was up 25%, and that excludes, obviously, as I mentioned, the $6.8 million of breakage revenues, to be recorded in the second half.

The gift and incentive segment represented 66% of revenues in the first half, and of that, just out of interest, GDV from malls represented $700 million of the $840 million, so $140 million is non-malls, or the incentive gift card percentage of that segment. So, breaking that down, malls are obviously 54% of revenue, and we will have variances in GDV between markets, but to give some perspective, a 1% GDV lift equates to circa $2 million in EBITDA. So, whilst it may - whilst malls, thematically, might be a lower growth segment, they remain highly profitable, because you've got a conversion rate of 480 basis points.

In the first half we lost a Canadian mall customer that represents about a million and a half in revenue. We don't tend to lose too many customers, full stop, but as we win clients like Simon, we can lose the odd one, but despite that, we've tightened up the bottom end of our guidance range and provided a revised EBITDA range of 39.5 to 42.5, so again, a bit of resilience in the business model.

As we mentioned when we announced the PFS acquisition, our GDV and revenues become more balanced between the gift and incentive segment and the reloadable segment, and then, by extension, the revenue from malls will decline to circa 30%, which, again, just talks to revenue diversification, but malls is a seasonal business, so if you can reduce your reliance - your revenue reliance on a seasonal part of your business, the better.

In our GPR segment, revenue grew by 7%, and GDV was fairly neutral on a prior comparative period. If we exclude LuLaRoe, which I've probably spoken about more than any single customer in the Company's history, I would guess, which continues to decline, GDV growth would have been 35% higher, versus the 5% that we're reporting today, and Rob will add a bit more colour on the GDV and the revenue headwinds from that program in the last couple of years.

On the positive note, as LuLaRoe continues to decline in GDV terms, the impact on future reporting periods becomes less material, and we would expect to see solid growth in FY21 as New South Wales Health launches and the remainder of the cards under the Smart Group contract are brought across, which alone represents about $7 million in annual revenue, so, put another way, we'd expect that once those programs launch, and we see growth in our recently launched relatable programs, we'll see revenue growth in that segment well north of the single digits in the first half.

In our VANs, or Virtual Account Number segment, GDV more than doubled, to $4.3 billion, which more than doubled revenue to $5.5 million in the half. We signed a long-term contract extension with BillGo, who presented at EML Con. We signed on a large payments aggregator, Viewpost, and we expect transactions to commence in the next couple of months with that customer.

Slide 9 shows the track record of growth over the previous five half years, and in the first half of FY20, 63% of EBITDA growth was inorganic and 37% was organic, which reflects the contribution of Flex-e-Card from 1 July. For the full year, the last year was actually the other way round, with 67% organic and 33% inorganic. That number will move around, based on acquisitions and the timing of those acquisitions. For example, I would expect that if and when - when PFS is concluded and those numbers are then incorporated into our first half of FY21, the inorganic growth percentage will be significant, because you're acquiring circa $80 million full year revenues - so call that $40 million, of inorganic revenue coming into the first half.

The organic growth rates are being driven by the various growth drivers we've got in place today. We continue to launch payout programs for gaming operators, and now support that in six countries. We remain actively engaged in discussions with existing customers to expand their programs and with new partners. As mentioned earlier, we've contracted for another 120,000 salary packaging programs that will convert across to EML, which provides significant revenue upside to the Company on that alone. Simon Malls is the largest operator - mall operator in the USA, but gift cards are a fundamental part of their strategy, both in store and in a B2B sense, and whilst we're one of a number of products that they have - because we're not an exclusive provider to Simon, it'll represent some pretty solid upside for us in that segment, long term.

In the non-malls part of our gift card business, as I said before, we're making pretty good progress with our Mobile Pays solution, and that'll get better as more prospects in the pipeline are converted.

I won't spend a lot of time on slide 10, other than to say, we now service 1185 malls. On the right hand side, we just show some newer programs that are somewhat unique, including the greencard, which is a fully mobile pay solution, which is in conjunction with TCN and Qantas, and CentreParcs, which launched in late 2019 in the UK and Ireland, that uses a fully biodegradable cardboard card. From an ESG perspective, we are focused on trying to reduce our plastic

consumption over the next three years. When you think that we'll distribute more than 15 million plastic gift cards per year, it's pretty significant. So we will certainly be aiming to reduce that number, through looking at products on biodegradable materials, or shifting it to a Pays fully mobile solution, and trying just to reduce the plastic consumption a little bit.

Slide 11 refers to salary packaging, which I won't belabour too much, because I've already spoken about that in terms of accounts that are on the books and accounts that are contracted to come across.

On slide 12, moving on to that, we've got a couple of examples of the ControlPay product that we launched in the first half, including the launch with MoneyMe. We continue to build our pipeline in this area and we've got programs in multiple countries that we expect to launch, and they do cover a fair gamut of alternative lending. They do cover consumer finance, they cover peer-to-peer lending, they cover buy now pay later. There's a broad spectrum, and as those deals launch, we'll update the market on those.

I think it's important to say that the volumes from those programs will grow over time, for example, MoneyMe, at $130 million loan book, I think was their most recent report, and we launched our program 60 days ago, so I think that gives us plenty of runway, as MoneyMe seeks to channel more lending through the freestyle product that we're supporting.

Slides 13 to 15 are the slides we used in the investor pack for the PFS acquisition, and we're including again, for those not familiar with that transaction. As a regulated business, EML is not in a position to make any operational decisions for that company until we have regulatory approval, and nor would we choose to comment on any particular programs that they might enter into, until that transaction closes, but from, certainly recent meetings and dialogue we've had with the company, we're pretty encouraged by the pipeline and the number of programs they've got in the implementation stage.

Slide 16 just talks to a few of those, so, without going into any of them in great detail, just so shareholders can understand some of those programs that have launched, Fundsfy is a neobank, digital bank that has an investment platform built around it that allows - effectively, it allows customers to use it as their primary bank account, but also it has a crypto-trading feature in it, it has share trading features, it has other investment modules around it. eCREDO is another digital banking product, so that continues the European push for PFS in that market.

Then, new contracts that have been signed, and these are just since December - local - UK local market authorities, quite a few of those. Axiom, which is a reloadable program manager that is looking to launch in a dozen European countries over the next couple of years, and the UK Home Office, which PFS had on social media, when that was announced. So, that just gives you a bit of a flavour for activity, literally, since December. The last 60 days or so.

I'll now hand over to Rob, and he can take you through the financials, and then I'll come back on the guidance piece.

Rob Shore: Thanks, Tom, and good morning everyone. I'll take you through the financial results review, starting on slide 18 of the pack.

The first six months of the financial year '20 has started strongly. We've got record GDV, record revenue, gross profit margins are significantly up and a record EBITDA, as shown in the highlights on this slide.

Starting with the Group gross debit volume, the first six months of the year delivered $6.62 billion, is up 59% on the same period last year, and the $6.69 billion (sic - $6.62 billion) compares favourably to our 2019 12-month total of $9 billion, with the most - majority of the volume coming from organic sources.

Record GDV growth converged into record revenues are up 25% to $59.2 million, albeit at a lower revenue yield of 89 bps. The VAN segment delivered the majority of the increase in volumes. The VANs is a low-yielding segment, so

although all segments were in line, or ahead of the prior comparative period yields, the segment mix change reduced the Group average revenue yield to 89 bps, as we became greater weighted towards virtual account numbers.

Cash overheads potential revenue continued to decline - we'll talk more about that - with the adoption of new lease accounting standard AASB 16 and revenue growth outpacing the overheads growth. EBITDA, to highlight up front, is now calculated excluding acquisition costs, given we had significant costs incurred to the acquisition of PFS, which we announced on 11 November.

The Group delivered a record half year result - EBITDA result of $19.7 million, which is up 42% on the prior comparative period, as restated for these acquisition costs.

We move into the detail, on slide 19, gross debit volume. All three of our segments, gifts and incentives, GPR and VANs, grew, consistent with the narrative and prior periods. There's really only one North American customer in our GPR segment that proved a significant headwind. We'll talk more about LuLaRoe. We're proud of our ability to grow GDV over the long term and we think that's demonstrated by a five-year CAGR of 104%.

Looking into the detail, our gift and incentive segment grew in the period. Volumes are up 25% to $840 million in the six months. It compares pretty favourably to the $660 million in the prior comparative period, and we're only just shy of the $1.06 billion we did in 12 months last year.

As you expect, from a segment providing services to over a thousand programs in more than 20 countries, there are a lot of moving parts, and that included the full year impact of the launch of nearly 100 malls in Germany, in October 2018, so we had the full 12 months - or the full six months - in this period. We had weaker retail trading conditions in the UK and Germany, in particular. Tom mentioned we lost the Canadian mall customer in the first half. The launch of Simon Property Group, and ECE Austria will only - only occurred in the second half of the financial year.

The acquisition of Flex-e-Card on 28 June 2019 did provide volumes throughout the whole period, and we saw stronger growth coming from our programs in Eastern Europe, Italy and the Middle East in particular.

The takeaway from these points is that the segment's resilience, due to the portfolio nature of operating a large number of programs in different regions, and we continue to see - we continue to expect growth from new launches, particularly related to the expansion of our Mobile Pays gift programs.

The gifts and incentive segment converted GDV to revenue an average of 479 basis points, was marginally down on the prior period, due to program mix, and as Tom mentioned, we've got a further $6.8 million of breakage revenue, which we'll recognise in the second half, on first half activations and volumes.

Looking at the GPR segment, at the headline level, GDV rose $73 million, despite lower volumes coming from LuLaRoe, our North American customer. Whilst LuLaRoe fell into decline, the comparison to the prior year was less of a headwind, and excluding this customer, the segment GDV grew by about $250 million.

LuLaRoe is a low yielding customer - we've mentioned that previously - and the impact was about $600,000 to revenue in the first half. We do get asked a lot of questions about the stability of volumes from LuLaRoe, the pace of the decline, and frankly, it's hard to predict accurately, with the program weakened quite significantly in December. To put the headwind into perspective, if you go back two years, in the financial year 2018, so two years ago, we processed volumes just shy of $2 billion - it was $1.9 billion - and we expect to process about $1 billion less in this full financial year, so it's a revenue headwind for the full year of about $2 million. Despite the headwinds, the GPR segment has been recording record revenues. As we complete the PFS acquisition, the impact of LuLaRoe on the segment will be significantly diluted.

Excluding LuLaRoe, the segment converts GDV to revenue about an average of 104 basis points, with a slight decline as the program mix became increasingly weighted to the salary packaging vertical. We do continue to see strong growth in the salary packaging vertical, which was up 41% to over $0.5 billion in the half, with a closing run rate of 187,000 accounts in market, as at December 2019. These accounts in market will now annualise revenue through the second half and in future years. The transition of Smart Group's benefit accounts remains on track, and we expect significant volume to transition from Smart Group and New South Wales Health in the second half of the year, which will benefit the financial year '21 in full.

Our gaming winnings payout programs have also continued to grow, with annualised GDV run rate in excess of $650 million per year, with programs in market across 5 to 6 countries.

In the VANs segment, we saw a continuation of the June exit run rate throughout the half, with an improved yield, due to better mix, up to 13 basis points. The Group signed and launched new customer view posts in the period, late in the period, which we expect to provide volume growth throughout the second half of the year. Whilst the VANs segment is a small part of the Group's revenue, because of its high GDV, it does remain important in providing scale to our business, particularly in regard to our relationships and credibility with the schemes Mastercard and Visa.

Moving on to slide 20 now, this is the second year since we adopted the revenue accounting standard AASB 15, and as a reminder, the implementation of this standard does not have a material impact to the full year results, but we will recognise a portion of breakage revenue on first half activations in the second half of the year, so the $6.8 million of breakage revenue and gross profit margin to be recognised in the second half. That's up from $4.5 million in the prior period.

Revenues for the half year FY20 are directly comparable to the prior comparative period and were up 25% at a lower rate of GDV, due to the mix shift towards the VANs segment.

The Group earns revenue from a multitude of fees, including transaction fees, activation fees. We have ATM fees, interchange and breakage. Now, not all programs charge all fees, and it can be mixed and adapted to what the customer is particularly looking for, but collectively, this is the recurring operating revenue, and it represents the yield on the volumes processed. Recurring revenues do include breakage revenue, because it's the amount unspent, which is the amount unspent on our single-use, non-reloadable gift and incentive cards. In the period, breakage was 26% of Group revenues, and was down from 31% in the prior period.

It's an outcome of growth in the gifts and incentive segment being outstripped, really, by growth in GPR and VANs segment and a shift towards more transactional-based fees in that segment. Once we complete the acquisition of PFS, the proportion of breakage income will fall further, with PFS generating the majority of their revenue through transactional fees and interchange income, but the vast majority of our revenues, so 86% of our revenues are classified as recurring, and even establishment fees, which mostly relate to the sales of plastics, are really expected to recur as plastic does need to be replaced.

We also earn interest on the store value float that we hold on behalf of our customers and cardholders. Growth in the gifts and incentives segment was largely driven out of the European region, and so whilst the float did increase - it was up 12% on 31 December last year, interest rates in that region are essentially nil or negative, and so it didn't really fall through to the revenue line.

GPR growth was strongest in Australia, which, everyone will be aware, has seen interest rates halved, from 150 bps in May 2019 down to 75 bps now. So, whilst falling interest rates have been somewhat of a headwind in the first half, we've actually benefited - the impact's been offset by gains in foreign exchange rates, given 82% of our revenue was earned offshore in the period.

Moving to slide 21 now, gross profit margins, we've guided previously that investors should expect lower margins in the first half, due to the timing of breakage revenue recognition under AASB 15. This will be the case in FY20, with half year margins at 75.6%. The 75.7% in the period was actually up on the prior year though, and we're continuing to operate at healthy gross profit margins, and we'd spoken previously to investors about our drive to try and improve gross profit margins, which we're starting to see fall through to the results.

Cost of sales is mainly really two elements. It's the plastic cost of cards, which we produce, using external manufacturers, and it's the transaction fees, scheme transaction fees and external bank sponsor fees, in countries where we don't have the necessary licences to do that ourselves.

The lift in gross profit margin this period is pleasing to see. It's something we've been targeting, and it was driven by the Group's principal membership of Mastercard in Europe and Australia, where regulations allow us to do so. Our e-money licence in Europe and the transition to self-issuance has started to bear fruit, assisted by some reduced rates from sponsor banks that we announced late last year. This lift in gross profit margins is sustainable. We expect to see further upsides as more programs transition to self-issuance, particularly our salary packaging customers in Australia.

Second half margins will be aided by the recognition of $6.8 million of breakage profit, at 100% gross profit margins on first half activations, so we'd, overall, we'd expect to see margins for the year up in the high 70s.

Looking now at overheads, on slide 22, the headline level, overheads fell as a percentage of revenue, to about 43%. It was driven by the Group adopting AASB 16 leases, and has an impact of approximately $660,000 in the period, and revenue growth outstripping our overhead cost growth. About 44% of the increase directly ties back to the acquisition of the Flex-e-Card business, which we completed on 28 June 2019, alongside the full period impact and new roles that we added in FY19.

The majority of our cost base relates to our employee group. It makes up about 66% of our overheads, which is in line with the prior period, and we closed 31 December with 275 employees, which is in line with our June close, which also included the Flex-e-Card employee group.

As we flagged earlier, we've stripped out the cost of the due diligence on acquisitions, when arriving at the EBITDA, which came in at $3.4 million of costs, mostly related to PFS acquisition, which has not yet been completed.

Moving to the income statement on slide 23, there's a couple of other items to call out. I'm going to start with the fact that EBITDA was a record first half result, $19.7 million, and we expect our guidance range - Tom will talk about in a little bit more detail shortly - to be $39.5 million up to $42.5 million, and so the first half/second half splits are broadly going to be consistent with the prior year at this stage. Tom will give more information on our guidance later in the presentation.

We do receive research and development tax credits in the UK and Australia. The credit received this year was slightly ahead of the prior period, and it's really due to the sheer volume of projects that we've been working on, around the Group. As a percentage of our development effort that we've expended, we're actually getting a lower percentage claim. The tax regulations are really tightening around the world, and so we're seeing the impacts of that, but we're doing a lot more development work on a number of different projects.

Share-based payments rose to $4.7 million. Most of that related to $2 million for a share-based payment to buy back a contractual agreement with a salary packaging consultant, who assisted us to establish the vertical. We announced this on 22 July 2019. The higher share price has also impacted the share-based payments expense, due to accounting for executive short-term incentive plans for the FY20 year. On the flip side, we've seen options in relation to acquisitions in the US that we completed in 2016, have mostly vested either in late 2019 year, the FY19 year, and also in August 2019, so we do expect share-based payments expense to be lower in the second half of the year.

Depreciation and amortisation expense is higher in the period, and it's almost wholly related to the acquisition of Flex-e-Card on 28 June and the amortisation of customer relationships and contracts that we acquired with that business.

Other non-cash charges relate to the unwinding of the discounted contingent consideration on our Presend, which is now in our Nordics, and our Perfect Card acquisition, made in the 2018 calendar year. It's offset by foreign exchange gains in our overseas assets and liabilities as they converted to Australian dollars.

Overall, our corporation tax payable was about $100,000, which really reflects the deductions and deferred tax movements that we've seen in all regions, for share options where we get a deduction - a tax deduction for these at the share price on the day of vesting or the day of closing the financial period. The Group's got significant tax losses available for use in future years, including deferred tax assets on the balance sheet.

We continue our transition to put more focus on the NPATA metric as a real measure of underlying business performance, and we reconcile this on slide 23. Our cash flows for the period were really multiples of our statutory NPAT number, and so we think that the NPATA metric gives a better indication of underlying business performance, whilst including the cost of share-based payments and depreciation and amortisation of non-acquired assets that EBITDA does not. NPATA is $16 million, significantly up from $9.4 million in the prior period, but this also compares favourably to the full 12-month period of 2019, which is $20 million.

On slide 24 we present the balance sheet. Headline closing Group cash of $256.8 million, alongside a $32.7 million breakage accrual. The contract asset, which is the breakage accrual, represents the remaining portion of funds on gift and incentive cards that we sold previously - we have received the funds, but we expect the balance to remain unspent and revert to cash in a future period. The contract asset is up on 30 June by about $900,000, due to growth in the gift and incentive segment, with that further $6.8 million to be - still to be recognised.

To fund the acquisition of PFS and associated transaction costs, we undertook a capital raise, and that's coming through in our cash balance, which remains on the balance sheet, pending the completion of that transaction. We received cash of $241.6 million connected with that raise.

We no longer have any debt on the balance sheet, as we've repaid in full the $15 million of debt from a major domestic bank, prior to drawing down any funds on our new syndicated debt facility that we established in connection with the acquisition.

Intangibles on our books mainly relate to the six acquisitions we've made since 2011, because the businesses that we buy are not capital intensive, so you typically end up with quite large intangible assets and goodwill. They make up a significant portion of the purchase price.

Deferred tax asset, $27.1 million, is up on 30 June, mostly due to the share price movement impacting the future deduction, or the existing deduction we've received on share-based payments. We've got tax losses of just shy of $20 million - $19.9 million - which are in Australia, the US and the United Kingdom.

Trade and other payables includes contingent consideration of $12.8 million in relation to the two acquisitions made in calendar year 2018. Both have earnout components which were anticipating being successfully completed and paid out in the future. This $430 million asset, which we show as receivable for the financial institutions - this is the money held on deposit with our banks, on behalf of our customers, and is directly offset by the liabilities to store value account holders which is the amount we owe to those cardholders.

As we continue to increase the self-issued element of our business, principally in Europe and Australia, these amounts have grown, and will continue to grow significantly.

On slide 25, we call out the underlying cash flows for the period at $13.1 million. Statutory operating cash flows was $8.1 million, which includes acquisition costs paid of $0.5 million and tax interest expense - $0.5 million, which fall outside EBITDA, so we add those back, and then we were also impacted, as Tom mentioned earlier, by timing differences on annual payments made in the first half for insurance, the 2019 short-term incentive plan and transition success fees, which totalled $4 million. So, excluding these timing differences, which we don't expect to recur in the second half, given our EBITDA was $19.7 million, it represents an EBITDA to cash flow conversion of about 67%. We continue to expect full year cash conversion to be in line with our expectations of between 70% to 80% for the full year.

In terms of investing cash flows, we invested $4.9 million, primarily in relation to internally generated software of $3.4 million and the acquisition of software from Paywith Worldwide of $1.5 million we announced back in July, which supports our salary packaging vertical.

Some of the significant internally developed projects we've been investing in have included mobile payments technology, a new mall till system, and a web-based card management portal for our salary packaging vertical.

Finally, we signed a letter of commitment for a debt facility of up to $175 million in connection with the acquisition of PFS and for ongoing corporate purposes. We did not draw any debt on this facility in the period.

Now, I'll hand you back to Tom, who will take you through the update to our 2020 guidance.

Tom Cregan: Thanks, Rob. Turning to our guidance, the slide, we've tightened the EBITDA range by removing the low end of $38.5 million, and the revised EBITDA guidance is for $39.5 million to $42.5 million for the year. As we mentioned earlier, we generated EBITDA of $19.7 million in the first half, and we have $6.8 million of breakage, which will be recorded by the end of February, so we effectively have high visibility to $26.5 million, and in FY19 the split of EBITDA was 47% in the first half and 53% in the second half, so we feel good about removing the low end of our guidance and tightening that up.

We will have increased expenses in the second half ,associated with the PFS acquisition, but not expenses that can be excluded from EBITDA, including recruitment costs and employment costs for senior leaders in the finance and risk management functions that we're hiring for, and I'd probably expect a little uptick in travel costs, as well as the respective EML teams engage and spend time educating each other on our respective solutions so we can hit the ground running in FY21. Frankly, I'm not that concerned with spending half a million bucks to a million bucks in the latter part of the financial year, given we paid $425 million for PFS - or we will be - and FY21 will be the first year as a combined Company, and it's stating the obvious that that's a critical one to come out of the gate swinging and deliver against expectations. So, our guidance range that we're providing today allows for that spend to happen within that revised guidance range.

We saw interest rates reduce a million over the prior period, but as Rob said, they were offset by favourable FX rates, so again, one of the positives of the business model is just the ability to manage through some of those things, whether it be a loss of a customer, whether it be loss of revenue in a customer, through LuLaRoe, whether it be FX rates on one side, interest rates on the other, it just provides a fair bit of resilience in the business model.

As Rob said, our EBITDA guidance excludes acquisition costs, and as we flagged in November, those costs are likely to be around $15 million, including the debt raise, the capital raise, and funds spent on diligence and advisory, so some of that will be capitalised, some of that will be expensed, based on the accounting rules, but that'll be a significant item, I think, in the second half, and we'd expect to refresh our guidance when PFS closes. So, when it's closed and we're able to announce that to the market, we will include EML standalone guidance and the expected contribution from PFS, and therefore the overall Group, at which point all future guidance for the Group in FY21 and beyond will be for the Group, and just include PFS as a matter of course.

With that, Operator, I'd open up the line to any questions.

Operator: Thank you. Ladies and gentlemen, we'll 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. Once again, ladies and gentlemen, it is star one and wait for your name to be announced. Thank you.

There's some questions in queue. Our first question is from Mr Nick Caley, from Baillieu. Please ask your question.

Nick Caley: (Baillieu Holst Ltd, Analyst) Hi guys.

Tom Cregan: Hi, Nick, how are you?

Nick Caley: (Baillieu Holst Ltd, Analyst) Good. Can you just give a little bit of commentary on where Bet365 and GVC are at?

Tom Cregan: In the US, or Europe? Or…

Nick Caley: (Baillieu Holst Ltd, Analyst) Anywhere. Because I suppose it's not - at this stage, it's still very early days in terms of making a material contribution to GDV.

Tom Cregan: Yes, but I think it'll be - as I think I've said a couple of times, I think the US gaming market will be some years before it's noticeable at the GDV line. If you look - I mean - I'll answer the question in a second, but if you look at PointsBet, for example, which is public, and you look at their results in Jersey, because you've got a market that supports mobile registration, mobile usage, mobile payments, et cetera, and then you look at a market like Iowa, where you've got to arrive in person to four places to enrol and become a customer. Some of those states will just evolve at different paces, so it's really difficult to predict the GDV growth in some of those markets.

We're in discussion with all those guys, so it's a bit hard to talk publicly about what they're doing and where they're at, but we were meeting with them as recently as last week, to understand what their plans are and talk to them there. So it's a bit hard to answer that for just those two and what their plans are, but - other than to say we remain pretty in constant conversation with them, I think.

Nick Caley: (Baillieu Holst Ltd, Analyst) Okay.

Operator: Once again, ladies and gentlemen, it is star one to ask a telephone question. Our next telephone question is from Mr Mark Bryan from Wilsons. Please ask your question, Mark.

Mark Bryan: (Wilsons, Analyst) Tom, Rob, morning. Another set of good numbers. Well done. Wanted to, if we can, dig into the VANs business, please? it's obviously had now two really good half year periods, and added over $1 billion of GDV in each of those halves. Can you just talk about, please, the outlook over the next six to 12 months for further contract wins in that space? Equally, how concentrated should we think that revenue line is, in terms of customers, and what would, say, roughly, the top five customers, please, account for in that division? Thank you.

Tom Cregan: I think the pipeline, I would just say it's solid. I mean, I think it's - there's a lot of opportunity in there, but it's a major - it's a pretty vast market, so there should be opportunity in there as well. Those opportunities are across multi segments, so whether it's payment of the health industry, whether it's payments in workmen's compensation, whether it's supplier payments. I mean, there's lots of different verticals under there. I mean, Viewpost is the most recent

aggregator that we've brought on, which included bringing on a new, a different - a new issuing bank, as well, to support that program. So, I think we'll just continue to announce more deals, and the pipeline looks - I would just call it solid.

In terms of the aggregation, I would say, out of all the contracts we have, it depends on who they are, so an aggregator would in turn have hundreds of customers underneath that program, so I would say probably - so in other words, we could sign customer A directly, and customer A could be an owner of 100 fast food stores and the GDV might be $40 million, or I could sign customer A, who could in turn be servicing those guys, but he could have 20 of them. But I tell you, aggregation would be - I'd probably have to come back to you, but I'd say the aggregation model would 80%, I would guess - I'll come back and clarify, but probably 80% of GDV, amongst all the different aggregators we have, and that's the model that we're certainly going for.

In the past, I think the last two halves - and the traction we're getting is a reflection of having the right strategy. I think when we were trying to sign direct companies, we had higher conversion rates - they were going from 60, 70, 80 basis points, but difficult to scale, as opposed to working with aggregators, where we're earning 13 basis points, but they could be bringing on $300 million, $400 million, $500 million of payments. So, aggregators in general - and I wouldn't mention all the aggregators, because we don't want to bring competitive attention to ourselves - but aggregators would be more than 80% of the GDV and direct, singular contracts, that'd be probably the rest.

Mark Bryan: (Wilsons, Analyst) Yes, good. So de risk. Okay, that's helpful. Thank you.

Whilst I've got you both, just on PFS, obviously you've given us update in terms of timing, and it's out of your hands. How would you characterise though, the discussions with the regulator? Has it been relatively fluid, or has it been more a case of you've dropped in your requirements, information requirements, and it's gone quiet? Anything you can say there?

Tom Cregan: I mean, very, very business as usual. Certainly nothing of any concern.

Mark Bryan: (Wilsons, Analyst) Okay.

Tom Cregan: I think if there was something of concern, we would have to flag that, but it's pretty much BAU.

The time for the Irish approval has actually passed now, where the regulator can ask any more questions. Having said that, they didn't exactly inundate us with questions. I mean, we're already a regulated entity in Ireland, so that process was pretty reasonable. I think we filed both applications - I'm looking at Rob here, for - in case I get this wrong - but within two or three days of…

Rob Shore: Ten days, yes.

Tom Cregan: Ten days post buying the business, we put both those applications in, so we're hopeful it's not too far away, and there's nothing that would give us any cause, as of today, that would tell us that there'll be an issue there.

Mark Bryan: (Wilsons, Analyst) Great. Well done. Thank you.

Operator: Our next telephone question is from Mr Ron Shamgar from TAMIM Asset Management. Please ask your question.

Ron Shamgar: (TAMIM Asset Management, Analyst) Hey, Tom, hey, Rob, how're you doing?

Tom Cregan: Morning, Ron.

Rob Shore: Hey, Ron.

Ron Shamgar: (TAMIM Asset Management, Analyst) Congrats on the results. Just a few questions. Just wanted to ask about the PFS. You gave a bit of an update on calendar year '19 revenue and EBITDA at £12 million EBITDA, for the Group, for PFS. That's just under the FY20 guidance of AU$24 million for PFS that you gave back in - at the AGM, when you announced the acquisition, and considering all the new contracts and the growth in that company, I mean, do you anticipate them to exceed that number, based on the calendar year '19 number?

Tom Cregan: Sorry, I'm - the question - are they - in calendar year '19 did they do…

Ron Shamgar: (TAMIM Asset Management, Analyst) Well, they're - based on what - I mean, you posted that they did £12 million EBITDA for calendar year '19, which is pretty much the full year '20 forecast that you've given.

Rob Shore: Yes. It depends on the timing of program launches. Do we think they can achieve better? Yes, they can. Certainly their business has got some great traction, but they normally report on a calendar year, so we're slicing and dicing two things that don't really normally go together, but really, fundamentally, it just depends on the timing of when some of these programs launch and how quickly they scale, as to how well they'll go in that six months. Really, our focus at the moment is getting the change of control approvals and getting the transaction completed.

Tom Cregan: I think, if I - if I think what you're asking, Ron, it's, did they - so our deck was in November, and did they deliver the £12 million of EBITDA of the full year? I think that was probably the question. But they're still private and they haven't filed, so I can't talk to what their filings will be, but I can tell you, it's not something to worry about. If I can be cryptic about it. I think their performance was okay and in line with what we disclosed. I think, based on what we've seen in terms of new contract wins, that business has got some really good firepower, coming in terms of implementations and new programs.

So I think when it closes - probably the second part of your question is, will we restate a 12-month EBITDA number from when the deal closes? I don't think we will. What we'll do is provide guidance for the remainder of this year, and then, next year, provide full year guidance. But as it's tracking, the business is meeting its numbers.

Ron Shamgar: (TAMIM Asset Management, Analyst) Okay, cool. Just, with the gross profit margins and going from 73% to 76%, I think last year you flagged that you're aiming to get to that 80% number within maybe two and a bit years. Are you still happy with that - get to about 80% within a year or two?

Tom Cregan: Yes. Yes, I think the - certainly in Europe, the - it's probably the first period, I think, where the numbers were cleanly up because in the corresponding period a year ago, we'd moved everything to self-issuance, but we'd incurred costs of moving people to that. So I think we had expenses to exit the issuing bank agreements that we had with multiple banks over there, that have had contractual minimums, and so forth in them, which we paid to exit, and they, from memory, were in the 400,000 range, so it's a kind of a prepayment to exit those programs and then you start self-issuing, and I think this half, in the first half, we can actually see the improvement in margin.

In Aussie, most of the salary packaging programs are still on heritage, but they are starting to migrate to us. As Smart Group migrates, it'll be on a mobile device, as Ministry - as New South Wales Health migrates, it'll be on both a card and a mobile device. That's when I think we'll start to see the second kick of margin, because you'll have 300,000 accounts, so you'll have GDV in the $2.5 billion range, and that, without paying any bank fees, which will draw up - which will improve that again.

So, yes, I'd stick by that. I think within the next 18 months to 24 months, it's 80%.

Ron Shamgar: (TAMIM Asset Management, Analyst) Okay, great, and just last one for me, obviously you're almost going to get the PFS acquisition done and you're going to be quite busy integrating that into the business. Do you still have appetite and capacity for further acquisitions this year?

Tom Cregan: Oh, this year? Oh, that might be hard. I think the - I mean, we're always going to continue to be acquisitive and look at opportunities and we continue to do that. Part of what we wouldn't do - and I think part of it being a - having these regional - even though we don't report by region, but having teams in those regions, these acquisitions don't fall to the whole Company, right? So if we did an acquisition in the US, for example, the integration effort of that, from a management perspective, from an IT perspective, et cetera, is going to fall to the American team. It's not going to fall to the European team or the Australian team - or vice versa. So, some of these acquisitions that we do - PFS is a case in point, I think - it's pure operations are in Europe, so most of the effort on management integration and so forth, is going to be felt in Europe.

So, if there were other acquisitions to do elsewhere, we would look at them, because I think we've got the capacity and the talent in those regions, to do that. Doing multiple ones in Europe, I think would be over stressing the Company. I think PFS is a big acquisition. I couldn't see us doing anything acquisitive in Europe until that was bedded down.

Having said that, and I'm not trying to flip this, but PFS is a pretty resilient - not resilient - it's resilient, but it's a pretty standalone business. It's a pretty highly functioning business. So our - as we said when we bought it, our efforts to integrate it are not taking over their IT processing, because they've already built their own processor, and so part of the synergy savings are then moving programs from their outside processors to their own processor - which was something they were going to do anyway, so they've already resourced up internally to do that. That doesn't fall to existing EML staff, if you want to think of it like that.

What does will be things like implementation of an accounting - of NetSuite, so we bring them on to our accounting system, we bring them on to our HR system, because we're now 500 staff, so you've got effort there - but the effort is different. It's not the core - taking over all the management functions, integrating all the processing. It's a pretty self-sufficient business in that respect. So it's not integration light, but it's not integration heavy either, if that makes sense. We think we can really get behind those guys and they'll continue to do some bloody good things, and then it's a matter of, how do we take what they're doing and do it elsewhere? How do we take multicurrency programs that they're having a lot of success in, in Europe, and do those in Australia and do those in the US?

That's where I think a lot of the effort will go into, as opposed to integration heavy activity, if that makes sense.

Ron Shamgar: (TAMIM Asset Management, Analyst) Okay. Thanks, guys. See you tomorrow.

Rob Shore: Thanks, Ron.

Operator: Once again, ladies and gentlemen, if you wish to ask a question, it is star one. Our next question is from Owen Humphries from Canaccord. Please ask your question.

Owen Humphries: (Canaccord Genuity Group, Analyst) Good day, guys.

Tom Cregan: Hello.

Owen Humphries: (Canaccord Genuity Group, Analyst) Well done on the results. Just, we're knocking on 90 days since the acquisition. You guys are flagging now more towards that March/April. Just following Mark's question, is that - how does it work from here? Do you get a notice, and then you own it? What's the process between now and the closing of that acquisition?

Tom Cregan: Yes, pretty much. Subject to when that approval comes through, we need both approvals, so we need the Irish and the UK regulator. Then there'll be a - then it's just - there are a handful of other closing conditions, which are not significant, and then you've got a month-end close. So ideally, it would have occurred at the end of the month, so that from an accounting period, it's a neat - end one month with private ownership and start the next month with public ownership. The specific date of that will just be determined by when.

So if we got regulatory approval on 18 March or 20 March, we'd probably just wait till 1 April, rather than worry about just 10 days. If we got approval on 5 March, we probably don't want to wait 25 days. Rob's staring at me here, aghast at that, because all the work falls to the accountants, which doesn't fall to me, so I can say that.

Owen Humphries: (Canaccord Genuity Group, Analyst) Okay, got you. Then, if you're just targeting that guidance, so you've gone $120 million to $129 million, you guys had a pretty stable gross profit margin - you've had that for many years, between 75% and 80%, it means that the gross profit delta within your guidance range is around that $7 million to $8 million, but yet you're only - and your costs are fixed and you know what your headcount numbers are, but you've only got a $3 million delta in the EBITDA. Any reason why you don't have a wider EBITDA range, given your understanding - or given my understanding of that - of how revenue falls to earnings?

Tom Cregan: Yes. No, I think that's a good question. It's mainly, as I said, I think from a visibility point of view, with breakage and so forth, I mean you can argue that it's $26.5 million in the can. It's more, because I think we probably will have some expenses in the back half of the year, on the PFS piece, which some are headcount, that have been hired, so you've got recruitment costs, you've got employment costs there. So I think it provides us with a bit of cover for - if we do have increased expenses in the second half.

Owen Humphries: (Canaccord Genuity Group, Analyst) Got you. PFS obviously has done very well in Europe in the market - in the industries that they operate in. Now, when you undertake the ownership of that business, when - do you plan to export that product offering? Is that a strategy for you guys into Latin America or Europe? I mean, US and Australia - when do you plan to expand those down, the digital banking offering?

Tom Cregan: We've already started to do it in some respects. As I said, operationally, we can't make any decisions there, but we are already educating the respective teams, so we've had our - several people from our US business and our Aussie business in London and Ireland with them, in the last couple of weeks, learning about those products, to be able to hit the ground running. We're looking at creating - well, not looking at - we are going to create a role within the business, which is an existing employee - an existing headcount, but an acceleration role, so if PFS is working on opportunity A, and that same company has a business in Australia or a business elsewhere, how do we cross-sell that as quickly as we can, rather than waiting 12 months to then go and do it?

Those discussions are already under way. They're really, I'd say, very, very positive and very collegial, so I think they're really interested in our product set, because they don't sell gift, so when we did the deal, we said they were complementary product sets and complementary targets, in many respects. So if you think about all these neobanks that they're supporting and all these fintechs, it's not a big leap to say that when someone opens a bank account with Rebellion or Fintonic or Fundsfy or any of the fintech neobanks they've got, why you wouldn't send them a 50 Euro gift card, using the Mobile Pays from Rebellion, saying, thanks for opening your bank account, right?

A lot of the discussions are them saying, how do we start cross-selling your products, and strengthening the relationships they have, and then vice versa - we're looking at how we can take their tech and do it elsewhere, aswell. So, already under way, and the aim is that, as I said, when the approvals come through, we hit the ground running, and we spend the next two, three months of the year ,really working hard on the plan, starting to provide our teams with cross-sell targets, and getting after it, because, as I said, the first year - the first full year of ownership for that business is critical. It's a huge deal. We've been given great support by the investment community and the banks, and we can't cock it up, so we're going to have to hit the ground at full tilt.

Owen Humphries: (Canaccord Genuity Group, Analyst) Good one. Okay, I'll step back in the queue, and congratulations on the result.

Rob Shore: Thanks Owen. Have a good day.

Tom Cregan: Cheers, Owen.

Rob Shore: That's the end of the questions.

Operator: There's no more further questions at this time. I'll now hand the call back to speakers for closing remarks. Please go ahead.

Tom Cregan: Okay. Thanks, everyone. I'll probably finish up. Yes, thanks for listening in today. Certainly, I think the next call we probably have will be - or the next announcement or call we'll probably have will be when PFS closes and we've got the approvals for those. As I said, the guidance will be twofold, so the guidance will be EML standalone, so there's no kind of obfuscation of results. PFS standalone for the remainder of the year, and combined. So we'll see - we'll provide those and that'll probably be the next call. Hopefully, we can do that as soon as possible. Appreciate everyone listening in, and enjoy the day.

Operator: Ladies and gentlemen, that does conclude the call for today. You may all disconnect. Goodbye.

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