BPS Technology Limited Annual General Meeting 2017

Chairman's Address and CEO's Speech

Dear Fellow Shareholders, Ladies and Gentlemen, Staff of BPS Technology Limited, welcome to the Company's 4th Annual General Meeting.

I am Murray d'Almeida, Non-Executive Chairman of BPS Technologies Board and I will be chairing the Meeting today.

The Company Secretary has confirmed that a quorum is present, so I formally declare the Meeting open.

The format of today's Meeting is as follows:

I shall deliver my Address which will cover a number of governance matters including recent developments associated with capital management and CEO succession planning. I will then invite our CEO Trevor Dietz to report on our FY17 achievements.

The formal business of the Meeting will follow those addresses.

I should note that, as Item 3 on the Notice of Meeting concerns my re-election, when we reach that item of business I will ask my colleague, Mr. Garth Barrett, to assume the Chair.

FY17 Performance

FY2017 has been a year of significant business transformation for BPS Technology and while I will leave the Company's CEO to talk about this in more detail, I want to highlight a few significant achievements.

First, our acquisition and settlement of Entertainment Publications in September 2016 for $25.7 million, a strategic move enabling us to establish a significant footprint in the B2C market, has exceeded our projections in its first year and continues to perform strongly. Over the past year we have completed the integration of Entertainment into BPS' core operations and are now concentrating on realising the revenue generation and cost-saving synergies that this process has identified.

Secondly, we have continued to invest broadly across the BPS business in order to generate additional new and sustainable revenue streams at the same time as identifying cost savings that will drive productivity gains over the next three years.

And we have achieved this while remaining focused on meeting or exceeding our financial targets for the FY17 year. Last year BPS achieved a 120% increase in revenues to $110.5 million and a 45% increase in EBITDA, to $13.7 million, over the prior year.

An interim dividend of 2.25 cps was paid on April 12th, up 12.5% on the previous year. This dividend represented a yield of 4.8% on the then current share price and was paid to all shareholders on the register as at 24 March 2017.

Following this AGM the re-elected Board expects to declare that all BPS shares including Shares issued under the recent Placement and Share Purchase Plan (or SPP) will be entitled to a proposed final FY17 dividend of 2.25 cents per share fully franked, details of which are set out in BPS's announcement to the ASX dated 16 November 2017. The total Dividend for 2017 would then be 4.5 cents per share fully franked. The indicative Record Date for that dividend will be on or before 15 December 2017 with an indicative Payment Date on or before 10 January 2018.

I will have more to say shortly about capital management, including the current equity raising and BPS' future dividend policy.

Strategy

FY2017 was about much more than our financial performance. It was a year in which BPS made a significant leap forward in the execution of its strategic plan to increase the merchant base and consumer reach, enhance its transactional platforms and continue the transition to a digital first operating model.

Our 'digital first' strategy continues to deliver benefits to each of our key businesses, most notably to Entertainment Publications which, as I said, has delivered financial performance in its first full year under BPS ownership well ahead of our initial forecasts.

We have been investing to transition Bartercard to a fully digital cash and trade transactional platform which will drive down costs, increase revenues and ensure Bartercard is best positioned to help small and medium-sized businesses. It is also a good example of the digital transformation and business reorganisation strategy in action.

This can also be seen in the fundamental redevelopment of our bucqi mobile payment and rewards platform which now features a Visa Debit card option.

This focus on the digitisation of our business models is not just about controlled investment, it is also the key to the $6 million cost savings we have identified and will deliver over the next 3 years.

Alibaba/Alipay

It is important to note that the QR technology embedded into the bucqi platform was key to establishing the strong commercial alliance we have now developed with the global Alibaba Group. This alliance will be a strong driver of additional revenue growth.

Our earlier agreements signed with iSynergi Limited, Alibaba.com's Global Service Partner in Australia, will enable the BPS' merchant base to secure preferential access to the Alibaba e-commerce platforms.

Importantly, merchants can now earn additional cash revenues and the connection with Alibaba supports the pivot of the Bartercard business away from a pure play as a Barter Trade Exchange. Because of these important initiatives, Bartercard will be able to earn new cash fees from listings and transactions conducted by its member merchants on the Alibaba platforms.

As BPS continues to execute against its strategic plan the company expects to invest the equivalent of 3- 4% of revenues per year, over the next two years, in the digital transformation and continued software development.

Further, the Company has announced that it intends to implement a restructuring of operations, saving an estimated $6m over the next three years.

I am confident these, and other strategic initiatives will, over time, deliver superior returns for our shareholders and drive more customers to our merchants. Trevor will have more to say about this in his review.

Capital Management

Capital management played a central role in our operations this last financial year and is continuing to do so in the current year. I intend to spend some time on this, given recent events.

Last week we completed a $10 million equity raising, consisting of placement to institutional shareholders and sophisticated investors. This is being followed by an SPP open to eligible shareholders who were on our register as at November 22nd and which aims to raise up to $2 million. The placement to institutional shareholders and sophisticated investors in Australia and New Zealand was managed successfully by stockbrokers Morgans and Baillieu Holst. Under the terms of the SPP, eligible shareholders may subscribe for up to $15,000 worth of shares at $0.45 cents per share, the same price as the placement. Both placement holders and participants in the SPP will be entitled to receive the final dividend on the terms previously outlined. The SPP will open tomorrow on 28 November and close on 13th December at 5.00pm, Sydney time. Applications to participate must be received by the Closing Date. Documentation was mailed out to Shareholders on 24 November 2017.

The Placement and SPP are undertaken to replace the funds applied to the repayment in August of the $5 million Convertible Note plus interest and to provide working capital to accelerate the ongoing digitisation process in our Entertainment and Bartercard divisions.

Shareholders may appreciate a little background to place the current capital raising in context.

As you know, during September and October last year we raised $25.7 million in a placement and SPP to fund the Entertainment acquisition.

In December a $10m term loan, established with CBA in August 2016, was drawn down to provide BPS with working capital over the business' low cash flow period from November to March.

That same month a Convertible Note for $5m, first raised in December 2015, was redeemed and a new note was provided by Alceon on improved terms.

In April we paid an interim dividend of 2.25 cents per share.

BPS' dealings with the Convening Shareholders of the EGM have been well-documented in the Response document that was sent to all shareholders following the requisitioning of an EGM earlier this month that set out to spill the entire board.

The relationship with the Convening Shareholders had steadily deteriorated during June and July 2017 culminating in the calling up of the Convertible Note on grounds well documented and detailed in the Response document sent to all shareholders.

While our bankers did accept the need for BPS to repay the note, even though we had already received approval of an expanded overdraft facility for seasonal purposes (as announced on 9

August), the intention was for the Company to replace the $5m with either an equity raising or another note as soon as possible. However, a week later the Convening Shareholders served their notice of intention to call a General Meeting, putting all capital management initiatives on hold for the next 3 months.

The Convening Shareholders' failure to win the support of the majority of shareholders for their resolutions resulted in a change in their strategy. Despite discussions with them, acknowledging the closeness of the vote and seeking to involve them in discussions concerning new board appointees, their response was to sell down their shares on market in a hurried fashion, pushing the share price down 40% over a two week period from the day before the EGM when it was 84 cents to where it is today. Raising capital over this period was out of the question, given this level of share price instability.

The question that I have been most asked since the capital raising was announced last week is whether we held sufficient cash and, if not, did this prove the point made regarding our cash flow by the Convening Shareholders in their Letter to Shareholders. My answer to that is the Directors of this Company do take their responsibilities very seriously and acted to ensure that the Company always retained sufficient cash resources to fund our day-to-day operations.

We have often stated the fact that BPS receives the bulk of its cash flow from March to August via the sale of subscriptions to the Entertainment Book which then funds the business for the rest of the year. From December to February we operate on a lean budget. The difficulty for us this year was that $5 million plus costs was used to repay the Convertible Note from our cash flow and we had expected and had been advised that there should be no issue in our being able to refinance those funds well before the dividend payment was due.

The events I have outlined created a perfect storm, preventing us from undertaking that recapitalisation until recent days. We had no option but to raise capital at the depressed prices caused by what I consider to be the unfortunate actions of the Convening Shareholders in selling down their combined 9% stake in a hurried fashion when clearly other options were available to them.

Finally, a comment about dividend policy and the Share Buy Back.

Because of the seasonal nature of our cash flow and ongoing investment in digitization to which the company has committed, we have decided to change our dividend policy to one of annual payments, but with the caveat that the Board has to decide the amount based on the cash needs of the Company at the time.

It would come as no surprise, given recent events, that there have been extensive discussions with a number of our larger shareholders regarding the capital allocation priorities of this business. We are a technology business competing with fintech startups who are agile and focused on disrupting the status quo. We need to keep investing and innovating to maintain our competitive edge and we are fortunate in that we have no shortage of opportunities available to us.

Finally, I want to be clear about our thinking behind the decision to put in place a Share Buy Back facility. We want to provide the company with the flexibility to undertake a future Buy Back should the share price be unreasonably low and the Company have surplus cash to commit to such an action. Buy Backs are a recognized way of increasing EPS for shareholders and discouraging shorting of the stock – both positive outcomes for shareholders and, in theory, the share price.

Outlook

We are excited about the opportunity to continue executing against, and delivering the operational benefits of, our strategic plan over the medium term. Our expectation is that FY2018 will be another busy year as we work to complete our digital transformation program, while delivering solid financial returns.

Earlier this month we advised the market that BPS expects its FY2018 revenue and net profit to be no less than we reported for FY2017, being $110 million and $10.3 million respectively.

Board Renewal

BPS Technology's governance will be enhanced through our Board renewal program announced in September.

In September 2017, BPS announced that our long-serving CEO, Trevor Dietz, had advised the Board that he intended to retire in 2018.

I can now inform shareholders that Trevor will be succeeded as CEO on 4th December by Iain Dunstan, a senior executive with more than 30 years' experience in the technology and finance industry, including with a number of listed companies. Iain is with us this morning.

Iain was identified as a high calibre candidate following a search by executive recruitment firm Heidrick & Struggles and with the Board conducted extensive due diligence on Iain's qualifications and suitability for this important role before inviting him to join the Company. We are very pleased that he has accepted our offer.

Iain will formally join BPS Technology on the 4th of December 2017 and Trevor has kindly consented to make himself available for the transition process. As CEO, Trevor has left big shoes to fill. We thank him for the leadership, hard work and the commitment he has shown to help build BPS into a leading provider of transactional platforms and management systems, with a reach of 3.5 million consumers. He leaves the role of CEO with the business well-positioned for further growth that delivers superior returns for our shareholders.

Conclusion

I would like to thank our shareholders for their continuing support and to restate that Directors will, throughout the Board renewal process, company restructuring and implementation of the cost saving programme, continue to communicate regularly with the company's shareholders, including our institutional investors.

I will now hand over to Trevor to give his presentation, after which we will continue with the formal business of the AGM.

Thank you.

Thank you Murray.

Good morning shareholders and staff.
It is a pleasure to present an overview of the operational performance of the Company in FY2017 and to update shareholders on the steps we continue to take to continue to pursue our fundamental business objectives. These are:

- To bring consumers to merchants
- Create or facilitate transactions and
- To earn fees from those transactions.

BPS is a technology company that offers a range of transactional platforms that enable businesses to attract customers across multiple sales channels. We are pivoting entire platforms to a digital first operating model allowing the merchants in those platforms to gain access to a range of additional income not previously available to them. It is our way of ensuring we stay relevant and needed into the future.

Operational Highlights FY2017

The Chairman touched on some of BPS' key financial metrics for FY2017. Let me now give some additional detail.
Over the past 12 months we have maintained a sharp focus on continuing to improve operational performance and expansion.
In 2017 we delivered:

- EBITDA up 45% to $13.7 million, towards the top of the updated guidance range we gave in June
- Revenues up 120% to $110.5 million, that's ahead of our initial guidance
- EPS of 12.1 cents, that's also ahead of initial guidance of 11.8 cents
- Expected Final dividend of 2.25 cps, fully franked (total dividend for FY17 of 4.50 cps) subject to conditions already outlined by the Chairman and previously released to Market
- Net debt reduced from $7.7 million to $4.9 million, with gearing dropping from 21% to 7%
- Operating Cash flow of $12.8 million for the full year.

Entertainment Publications

Entertainment Publications, our recent and successful acquisition, was our stand-out performer in FY2017.
The untapped potential that lies within that business unit will continue to provide strong growth opportunities and increased earning capacities for BPS going forward.
The Entertainment business is reaping the rewards of digitisation, both from a cost-saving point-of-view and from providing a material lift in service levels and customer engagement, all of which will deliver a stronger and more stable bottom line.
Entertainment was projected an EBITDA of circa $4.5m when acquired and in its first year under BPS ownership, delivered $6 million, a material improvement. Digital apps now account for 42% of all sales, compared with 30% in December 2016 and a target of 35% at June 30 this year.
The Frequent Values Platform has expanded its base of operations and shows no signs of slowing. It is a similar story with Corporate Partnerships, which recorded a large increase in Gift Card sales. Of course that meant costs rose proportionately, but the net outcome was satisfactory.

BPS has been actively managing the Entertainment business for one year. We remain confident that this important business division will continue to exceed the expectations set at the time of acquisition. Its strategy is to deliver an experience to all the consumers using those platforms. Obtaining a discount is just the start – beyond that, customers can use our single app to search out what they want, when they want it, booked straight off the app at the best discounted price.

Bartercard

In FY2017 Bartercard revenues were down by 11% on prior year, but it is important to note that the majority of that decline can be attributed to the reduction in non-core activities – namely the sale of international licences. If that factor is omitted, core revenue was down by 2%, impacted by a poorer second half, particularly in tourism and hospitality in New Zealand. Progress was made in expanding the Bartercard reach during FY2017 and that momentum has continued throughout the current financial year with:

- The expansion of Bartercard USA from 10 to 20 franchises – since grown to 25.
- The sale of the licence for Bartercard Israel to the ZAP Group, with operations scheduled to launch in January 2018.
- The launch of Bartercard France in June 2017, the second Bartercard licensee in Europe.
- The acquisition of two key metro Bartercard franchises in Australia. BPS now controls 82% of members.

During the year, there was also a focus on cost reduction and Bartercard achieved a 12% reduction over FY2016.
New search technology developed in New Zealand (which is now acting as our testing ground) was deployed in late June 2017, with an update to our proven mobile technology launched in August 2017.
The Bartercard business is focused on digitisation and improvement to customer engagement levels. This process is continuing in FY2018.
BPS adds value to Bartercard membership through its association with key revenue enhancers such as bucqi, Alibaba, Finance Plus and Honan Insurance.
As Murray noted, BPS' in depth knowledge of QR codes in the payments industry via our redevelopment of the bucqi mobile platform has been a key factor in attracting the interest of the Alibaba and ANT Financial e-commerce payments giants. We could see the potential to leverage the Alibaba and ANT Financial e-commerce relationships when we were looking at Entertainment and it was a key factor in our decision to acquire that business.

Alipay

Our ongoing strategic alliance with Alibaba has led to an exciting business initiative, which was announced in September.
BPS and Alibaba's associated company, Alipay, have entered into a landmark Marketing Co-operation Agreement. This represents a further growth opportunity, both for BPS and for our merchant base, to generate additional revenues from the millions of Chinese tourists who visit the Gold Coast and Australia's east coast capitals each year.
To support this initiative, we are developing a Mandarin version of the Frequent Values App for Chinese tourists, who book trips to Australia via 'Fliggy'- Alibaba's digital travel service platform. This will allow those tourists to pay BPS merchants using Alipay, from which BPS will earn a fee.
Alipay will play a growing part in commerce and payment across Australia in FY 2018 and BPS is proud to have been nominated as a Gold Level Supplier in the roll-out of those new payment technologies.

Cost Savings

While BPS is focused on revenue and earnings growth, the Company has also identified potential cost reductions of more than $6 million which we believe are achievable over the next three years.

These include material and sustainable savings to be realised through:

- Group buying initiatives
- Bartercard restructuring
- Ongoing digitisation of Bartercard and Entertainment business divisions
- Major reductions in administrative expenses such as printing, telecoms, rent and insurance

As announced on November 6th the cost savings of circa $6m will be implemented over a period of the next three years.

Growth Strategy

BPS has identified five levers that will drive business growth and our future success. There is a strong focus and alignment across the business on the successful application of these five levers, which are to:

- Add more SMEs
- Add more consumers
- Add more Not-For-Profits (NFPs)
- Encourage faster adoption of digital practices by consumers, merchants and staff, and
- Redirect more people into income-generating activities
- The goal in FY2018, and beyond, is to accelerate activity across each of those areas, especially the rapid adoption of digital applications.

Summary

BPS has a bright future. We have an established and growing platform-based payments and rewards business; built over many years of software and technology development and innovation, with more than 36,000 merchants and 20,000 NFP Groups, for whom we raise millions of dollars each year.

We reach into the homes of more than a million consumers every year and our platforms generate more than one billion dollars in transactions annually - B2B, B2C and soon C2C.

Concluding Remarks

Ladies and gentlemen, as the Chairman has advised, Mr. Iain Dunstan has been appointed to succeed me in the role of Chief Executive Officer from next Monday, December 4th. I would like to formally welcome Iain to the Company and publically assure him of my support in effecting a smooth handover.

Iain is a 30 year veteran of the technology and finance industry and has extensive listed company experience, most recently as CEO of ASX-listed Rubik Financial Limited. He is also the 2007 recipient of the Ernst & Young Entrepreneur of the year award in the Technology, Communications, e-Commerce and Life Sciences category.

I have no doubt Iain is the outstanding candidate for the CEO role and, following a rigorous and professional recruitment process, this view has been endorsed by Heidrick & Struggles. I look forward to working closely with Iain to make the CEO transition as smooth and seamless as possible. I feel comfortable in knowing I leave the role of CEO of BPS Technology in safe and capable hands.

I am deeply grateful to my fellow Directors, our employees and to you, fellow shareholders, for all the support and, indeed, friendship I have received over the years.

There have been difficult periods, especially recently, but my confidence in the fundamental strengths and growth prospects for BPS remains unshaken. BPS is indeed a special company.
Thank you all.
I will now hand back to our Chairman who will conduct the formal business of the Meeting.

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About BPS Technology Limited (BPS): BPS is a leading provider of transactional platforms and management systems which enable businesses to attract customers across multiple sales channels. These platforms currently serve 36,000 merchants and 1.5m customers through a network of ~ 20,000 Not-for-Profit organisations, giving BPS a reach of 3.5m consumers. BPS earns revenues on transactions over the platforms via its subsidiaries Bartercard, Entertainment and bucqi.

About Bartercard: Bartercard operates the world's largest retail trade exchange for over 26 years. It allows small to medium businesses to conduct transactions without the use of cash. There are 50,000+ card-holders in 10 countries and 76 offices currently. Bartercard transactions can be conducted online, via its mobile app or across more than 7,000 bank eftpos terminals.

About Entertainment: Entertainment Publications is a business-to-consumer (B2C) deals platform with an established model proven over 22 years of profitable operations. Through 20 offices Entertainment provides restaurant, accommodation and activity guides with special offers from more than 12,000 businesses to consumers in Australia and New Zealand.

About Bucqi: bucqi is a disruptive mobile payments and rewards app based around a loyalty platform designed for businesses to attract consumers. It allows consumers to earn and redeem great rewards called "bucqs" via a wide range of participating merchants. The payments platform has been three years in the making and now features a Visa Debit card which allows consumers an easier way to earn loyalty points.