31 August 2018

IncentiaPay Limited announces unaudited full year results for year ended 30 June 2018

Restructure and rationalisation program on track

Second half Underlying EBITDA result in line with expectations and at top of guidance range

IncentiaPay Limited (ASX:INP) the "Company", a leading integrated loyalty and payment solutions provider, today announced its unaudited full year results for the financial year ended 30 June 2018.

FY2018 results highlights

- Revenue was $110.1 million, in line with FY2017
- Underlying EBITDA of $1.8 million includes $2.2 million in the second half
- Net loss after tax from ordinary activities was $62.1 million compared to a net profit after tax from ordinary activities of $10.3 million in FY2017
- Net cash of $11.1 million as at 30 June 2018

Gross revenue for FY2018 was in line with guidance. Underlying EBITDA was not reported on in FY2017 but will be reported during the restructuring period. Net loss after tax (NLAT) was predominantly due to non-cash charges related to the Company's current restructure program.

Overall gross revenue for FY2018 includes:

- $44.7 million from membership subscriptions (across both Bartercard and Entertainment) compared to $49.4 million in the prior corresponding period (pcp)
- $24.5 million from fee income compared to $30.0 million in the pcp
- $34.7 million from gift cards sales compared to $21.9 million in the pcp
- $0.2 million from license fees compared to $1.6 million in the pcp
- $2.7 million from other sources compared to $7.5 million in the pcp
- $3.3 million from discontinued operations in FY2018

The Company has added additional information regarding gift card sales within the Entertainment division, which represent significant revenue to the Group, however, margins on gift card sales are small (less than 1 per cent in FY2018).

Looking back over the past year, IncentiaPay Chairman, Murray d'Almeida commented, "We acknowledge our overall financial results have not been strong this year due to impairments and restructuring expenses, however, our gross revenue has been stable, and we are pleased with the renewed focus that has emerged due to the implementation of several key changes.

"As a Company, we are undertaking a significant restructure and pivoting our strategy to re-position IncentiaPay for growth. This commenced at the end of last calendar year with a renewed management team and continued into the new year with new senior leadership appointments, alongside subsequent changes to the Board of Directors."

Over the past six months the Company has:

1. amalgamated eight office locations;
2. amalgamated and streamlined the Bartercard Australia and New Zealand (BCANZ) senior management team;
3. restructured field teams for BCANZ;
4. implemented two key automation projects enabling restructure of head office administration;
5. created shared service support solutions for the Company's marketing, human resource, finance, project management and legal functions;
6. discontinued investment in ExportPlus and Bucqi operations;
7. substantially increased investment in Alipay sales and operations; and
8. divested Bartercard USA Inc. and negotiated an exit of the Bartercard UK operations.

Commenting on the past year, IncentiaPay Chief Executive Officer and Managing Director, Iain Dunstan, is pleased with the progress to date. "Our reallocation of capital to core growth areas of the business, and our scaling back of international operations has allowed us to focus on new growth and market opportunities in Australia and New Zealand. These leverage off existing corporate and partnership marketing channels, and our growing relationship with Alipay as one of their preferred marketing partners, which enables us to enter and capture the inbound Chinese tourism market. Our partnership with Alipay is set to be a driver of additional revenue growth in FY2019 and beyond.

"Digital transformation across all divisions has also been key, with significant overarching investment in software development and new digitally deployed offerings. Employee roles have been reduced as digital efficiencies are realised, with an investment in new employees for emerging and income generating areas.

"Our branding and identity change, as well as a change of corporate name which was finalised in April this year, aligns well with our goal to become Asia Pacific's leading integrated loyalty and payment solution provider", Dunstan concluded.

FY2018 results detail

Revenue from the Entertainment division was $77.4 million, an 18 per cent increase from FY2017 divisional revenue of $65.9 million. This increase was predominantly attributed to growth in the Corporate Marketing Solutions division, as well as a sizeable increase in gift card revenues. Revenue from the Bartercard division was $32.7 million, a 27 per cent decrease from FY2017 divisional revenue of $44.6 million. This decrease was due to a continued decline in the level of trading within the exchange. New Bartercard ANZ management have implemented several new initiatives to address this decline.

Looking at the geographical revenue breakdown, Australian revenue accounted for $90.7 million, or 82 per cent, New Zealand revenue accounted for $16.1 million, or 15 per cent, and other revenue, including from international license fees accounted for $3.3 million, or 3 per cent.

Reported net loss after tax (NLAT) from ordinary activities was $62.2 million, compared to a net profit after tax from ordinary activities of $10.3 million in FY2017. This net loss is predominantly attributed to impairments of $47.2 million, related to non-cash assets on the balance sheet. In addition, charges for depreciation and amortisation ($6.1 million), provision for restructure ($4.8 million), other one-off expenses ($2.0 million) and acquisition costs related to the purchase of Gruden ($0.8 million) were incurred during the financial year. The Company also incurred a further $3.5 million in costs related to the operations of the Bartercard US and UK businesses, which were discontinued as at 30 June 2018.

In finalising FY2018 results, the Directors have further assessed the future growth prospects and associated investment costs related to the Company's Bartercard business and have taken a further impairment charge against the assets of that business. Furthermore, the Company has taken a conservative view of the future contract signing rate within the Gruden business, as well as the planned investment required to fully integrate the mobileDen technology, and accordingly has booked an impairment against the business as at 30 June 2018.

Other significant items incurred during FY2018 primarily relate to the Employee Share Option Plan (ESOP) approved at the April EGM incurring a $0.7 million non-cash cost of issued ESOP's.

No dividend has been declared in relation to the FY2018 results. Investors should note that the Board of Directors of IncentiaPay Ltd do not expect to declare dividends from the Company during the current restructuring period.

Strategic growth initiatives

There have been three key strategic events since last year to support the ongoing growth of IncentiaPay's business:

1. a Marketing Cooperation Agreement signed with Alipay;
2. a Marketing Agreement signed with Smartpay; and
3. the acquisition of Gruden, an ASX-listed digital marketing and transactional payment company.

Alipay

In September 2017, IncentiaPay signed a Marketing Cooperation Agreement with Alibaba's associated company Alipay, the world's largest third-party mobile and online payment platform, to deploy it as a payment method through a selected number of its Entertainment merchant network. The agreement incorporates the development of the China in a Box merchant portal and a Frequent Value style deal offered on Alipay's Discovery platform that enables IncentiaPay to market to an estimated 800,000 Alipay users who visit Australia annually. It provides these inbound Chinese visitors with access to discounts and the ability to pay for goods and services from participating merchants using the Alipay application on their mobile phone.

Since the launch of the merchant portal in February 2018, IncentiaPay has signed over 250 merchants on Alipay's Discovery platform and over 110,000 coupons have been downloaded by Alipay customers to date.

IncentiaPay's merchant portal provides translation and training tools, consumer analytics, concierge and merchant acquisition services. Through this portal, IncentiaPay merchants can communicate with Chinese consumers before, during and after travelling to Australia via Alipay's Discovery platform.

The Corporate Marketing Solutions division is capitalising on this opportunity by developing a Frequent Values style deal in partnership with Alipay giving Chinese tourists access to specially targeted offers to redeem during their visit to Australasia. To support this, restaurant menus and other offer information have been translated into Mandarin. This initiative is currently being rolled out across the Gold Coast, Cairns and Sydney, and will extend to the major New Zealand tourist markets in conjunction with Smartpay over the coming year.

Smartpay

In April 2018, IncentiaPay signed a Marketing Agreement with Smartpay Holdings Pty Ltd (Smartpay), Australia and New Zealand's largest independent full-service EFTPOS provider. The agreement offers a 32,000 strong merchant network from IncentiaPay, and a 25,000 strong merchant network from Smartpay, the opportunity to promote goods and services in the form of download offers, bookings and transactions to Alipay users - before, during and after visiting Australia and New Zealand. Once Smartpay's new Alipay enabled terminals are rolled out, IncentiaPay and Smartpay will earn revenue on all transaction types, made up of a combination of negotiated transaction and marketing fees.

Acquisition of Gruden

On 11 May 2018, IncentiaPay acquired Gruden, a marketing and transactional payment company that services over 500,000 users across approximately 800 retail outlets and handles in excess of 100,000 transactions per month. Gruden operates across four business streams; Performance Marketing, Government, Digital Services and mobileDen. This acquisition has enabled IncentiaPay to further penetrate the quick service restaurant (QSR) market and hospitality sectors, provided access to a blue-chip customer base, and presented the opportunity for revenue generation, including cross-selling, as well as cost synergies.

Combining the two businesses will enable product and feature enrichment from the integration of Gruden's digital marketing platform and transactional capabilities with IncentiaPay's payments and rewards platform. Furthermore, it will enhance IncentiaPay's capabilities in the technology, media and digital sectors.

Outlook

The core focus for IncentiaPay remains growth within the Entertainment business to generate additional new and sustainable revenue streams; continued investment in the Alipay rollout and investing in the integration of Gruden's digital marketing and transactional capabilities with IncentiaPay's platform. These initiatives will further entrench our market leading position in the loyalty and digital payments solutions space.

"IncentiaPay has undergone significant restructuring over the past financial year and we are progressing our strategy to re-position for growth. Our cost rationalisation and savings continue to drive productivity gains, alongside our increased investment in technology to innovate and maintain our competitive edge and digital focus. This ongoing restructuring will enable us to move forward with a strong revenue business, a strengthened board and leadership team, a renewed focus on key markets, and a clear vision of where to go and how to get there", said Dunstan.

The investments in the Alipay and Gruden businesses will result in a reduction in forecast EBITDA of approximately $4 million and IncentiaPay now expects Underlying EBITDA to be in the range of $5 million to $7million for FY2019.

Commenting on the outlook, d'Almeida, said, "I'm positive about the future of IncentiaPay. With a total asset base of 36,000 SMEs, 20,000 not-for-profits, 1.5 million fee-earning householders and a reach of 3.5 million individuals transacting more than $1 billion per year - the opportunity for IncentiaPay to increase and drive new revenue streams from predictive buying and selling patterns is truly exciting. This is, now more than ever, well supported with the major trend of consumer online shopping.

"We will continue to invest and support our people as we transition and guide the Company through the next phase of change and growth, and I am confident the strategic initiatives we have put in place will deliver returns for our shareholders."

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About IncentiaPay Limited (ASX:INP)

IncentiaPay is a leading integrated loyalty and payment solutions provider which enables businesses to attract customers across multiple sales channels. These platforms currently serve 36,000 merchants and 1.5 million customers through a network of ~20,000 Not-for-Profit organisations, giving INP a reach of 3.5 million consumers. INP earns revenues on transactions via its subsidiaries Bartercard, Entertainment and Gruden.