



Money in Motion

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**ASX Market Announcements**

20 Bridge Street  
SYDNEY NSW 2000

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## EML 2019 HALF YEAR RESULTS TRANSCRIPT

**EML PAYMENTS LIMITED (ASX: EML) (“EML”)** is pleased to provide (attached) a transcript of the briefing to shareholders and the investment community held following the release of its 2019 interim results in February 2019.

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**EML Payments Limited**

## 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 1,200 programs across 21 countries in North America, Europe and Australia.

**For more information on EML Payments Limited, visit: [emlpayments.com](https://emlpayments.com)**

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**Title:** 2019 Interim Results Presentation  
**Date:** 27 February 2019  
**Time:** 10am

## Start of Transcript

Tom Cregan: Good morning and welcome to the EML earnings call for the first half of the 2019 financial year. As the operator said, my name is Tom Cregan, Group CEO and Managing Director of EML Payments, accompanied today by Rob Shore, our Group Chief Financial Officer for EML Payments.

I'll take you through the highlights of the first half result and a general business update. Rob will take you through the financial detail and we'll then open it up for questions in the time remaining. We have several slides to present today but really the highlights of the first half result are as per the ASX commentary statement which was, Group GDV of \$4.15 billion, up 16% on the prior comparative period. Group revenue of \$47.2 million, up 39% on the prior comparative period. Group EBTDA \$13.74 million, up 50% on the pro forma prior comparative period.

Operating cash flows are \$17 million. We remain debt free with \$50.1 million of cash on hand. We've upgraded our FY19 guidance on revenue from the previous range of \$82 million to \$88 million to \$88 million to \$94 million, the midpoint of which would be a 28% year-on-year increase. On full year basis an FY19 EBTDA guidance narrowed from \$26 million to \$28 million to \$27 million to \$28 million; the midpoint of which would represent a 32% statutory year-on-year increase.

On page 3, you'll see our mission statement, which we will reiterate in every presentation, so I'm sure you'll be thoroughly bored with seeing that after the 20th time. Really, it defines our strategy and our business model. For those that attended our inaugural EML Con investor event in November last year, you'll have understood that our growth is generated by a combination of organic growth in existing programs in markets across a range of customers, industries and geographies. Growth from newly launched programs where our customers are finding innovative uses for our technology and products.

On the following slide you'll see some of those recent launches including our payout card with Betsson in Sweden, our first gaming program outside of the UK, which is now in market. Our payout card with Pointsbet in the state of New Jersey in the USA, our first gaming program in North America. The launch of our fully mobile solution on the Apply Pay, Google Pay and Samsung Pay networks. Our program with Instabank in Sweden, the ECE Giftcard program in Germany which most would be familiar with and one of our recent wins partnering with a company called SWIRL Card in Ireland to be both the issuer and processor for an existing consumer facing reloadable program. We thank those companies for trusting their business and their brand in particular with us. We look forward to working with them for many years.

As you'll be aware, EML have adopted the AASB 15 reporting requirements on the recognition of revenue, which came into effect on 1 July 2018. AASB 15 has no impact on our GPR and VANS segments, given we earn revenue in real time as transactions take place, but it does impact the timing of revenue recognition on breakage in our gifts and incentives segment. Importantly, it stipulates that breakage has to be accrued, which has always been our historical practice but instead of accruing a sum on the sale of a card based on statistical data, and then reassessing those assumptions over the months that follow, AASB 15 requires us to accrue breakage revenue over the period in which the card is used.

As this is typically the first 90 to 120 days of the life of the card we had guided the market in November last year that there would be a change to our 2019 half year financials given breakage revenue normally accrued in November and December 2018 would be spread over the two halves. There would be no detrimental impact to our results over the full financial year and that is the case with the results that we've released this morning.

We'd also guided the market in November last year that instead of the typical seasonality that we've experienced in past years, AASB 15 would result in the removal of that seasonality and make our financial easier to model. Instead of the 65/35 EBTDA split, in our FY18 results and in the years prior to that, that we would see a closer to 50/50 EBTDA split going forward and again that's the case with the results that we've released this morning.

For the sake of consistency, we are referring to EBTDA results today on a pro forma basis, as if we had been reporting under AASB 15 in the corresponding period a year ago given that is the relevant measure of performance. We are presenting our financials to assist in this comparison, not restating our financials. Both the pro forma and statutory comparison as shown on page 16.

To make this easy to understand and Rob will certainly go into it in more detail, on a pro forma basis our EBTDA was up 50%. On a statutory basis EBTDA is up 1% in the half due to the 4.5 million in breakage gross margin that will be recognised in the second half as opposed to the first. On the basis of our full year updated guidance, the changes from AASB 15 wash out and we'd expect to see a statutory 32% EBTDA increase. That's something we'll continue to revisit during the presentation just so that's clear. It's really a matter that's really in the first half an optical difference between statutory and pro forma because of the AASB 15 coming into effect.

Investors will also recall that post our FY18 full year result we announced we'd be moving to product segment reporting versus geographic reporting. Given as we grow the latter would have been unwieldy and complex and that's the basis of our reporting today.

You'll see on the following page, the Group generated revenue of \$47.2 million, an increase of 39% on the prior corresponding period, driven by revenue growth in all product lines and regions. EBTDA, as I said increased by 50% on a pro forma basis to \$13.74 million.

Slide 7 outlines a number of highlights in the first half which we'll go into more detail in through the presentation. The two main takeaways from that slide is that the adoption of AASB 15 resulted in \$4.5 million in breakage revenue that will be recognised in the second half and given breakage revenue converts to gross profit on an equal basis, we'll see \$4.5 million in gross margin recorded in the second half for gift card sales generated in the first half.

The second is an operating cash flows for the half were \$17 million, generated by \$10.9 million of recurring operating cash flow which converted to almost 80% of EBTDA and a one-time benefit of \$6.1 million in cash following the restructure of our agreement with our primary USA issuing bank which will on an ongoing basis, see a shorter timeframe between revenue recognition and cash receipts based on agreed statistical data.

Moving to the next slide, we generated a 16% increase in GDV, equivalent to \$570 million, despite one customer in our portfolio, LuLaRoe, being down by \$590 million over the prior comparative period. On a net basis, the GDV growth came relatively equally from programs that have been in market for longer than 12 months and under 12 months, which is a testament to the diversified nature of our business.

Page 9, the following page talks to our gross revenue; \$47.2 million and our GDV conversion rate, which increased to 104 basis points as a result of business mix. With less lower revenue programs being offset by those with higher conversion rates.

Page 10, moving onto the next slide, which I've mentioned previously; \$13.74 million in EBTDA, up 50% on a pro forma basis and we recognise the \$4.5 million of gross margin in the second half. Breakage reduced to 31% of Group revenues in the first half would probably be the other takeaway from that slide. Whilst 31% that has come down as a percentage of revenue from 52% in the 2017 financial year and in the high 40s last financial year to 31% as long as we remain in the gift card industry, we will continue to have breakages of revenue stream. Shareholders should get comfortable with that because it will continue to be an ongoing part of our business.

In seven years, we have yet to see any substantive changes to breakage in the jurisdiction in which we operate in that have had a negative impact on the Company. Where some changes have occurred, the impact on the Company has been de minimis. By way of example, there were regulatory changes in Australia in 2018 that moved expiries to a minimum three year period and these came into effect for consumer gift cards, where an individual has paid for a gift card or a voucher with their own funds. Following detailed consultation with the Federal Government and the Department of Treasury in particular, B2B incentive cards were exempted from these legislative changes on the basis that a consumer is not paying for a card but is receiving that card for free as part of another purchase. Be that buying a television or a vehicle or a membership or some other purchase that they're undertaking. As shareholders would know, those are the vast majority of gift cards that we issue in Australia.

Page 11, moving onto the next page, shows our GDV and revenue performance on a segment basis. Revenues for the gift and incentives segment increased 32% with GDV increasing 42% to \$660 million. Whilst we no longer report on a geographic basis, it is worth noting that our North American gift and incentive results were up 5% in revenue terms due to a stabilisation of GDV, which grew following two years of declines. The impact of moving those programs last year to cards that are on BIN ranges that provide us with higher interchange. If memory serves me, that was an expense to the business last year of 500K to move programs and move those cards onto different BINS with higher interchange rates. The benefit of that is flowing through into the numbers this year.

Europe reported very strong growth as a result of both the Presend and PerfectCard acquisitions and the launch of ECE in Germany. Revenues for the GPR segment increased by 13% to \$12.3 million despite GDV falling 24% to \$1.39 billion, all of which as previously mentioned can be attributed to the program with LuLaRoe in the USA.

As we've explained previously, not all GDV is created equal in terms of the way it converts to revenue. Outside of LuLaRoe, we saw GDV increase \$130 million over the prior period with growth in our core portfolio, in programs such as salary packaging and gaming. Whilst LuLaRoe was down, the percentage spent on non-LuLaRoe purchases increased. Revenue from this program was more or less in line with management expectations. In other words, if we look at LuLaRoe in isolation, the revenue decline was not directly proportionate to the decline in GDV.

Our VANS segment is also on track to do \$4 million in revenue, which was the guidance we provided last year. Post this result we won't look to call out results from any one customer or program. We want to get away from discussing the performance of individual customers and focus on the inherent benefits of a diversified customer base. In addition, providing commentary on individual customers with respect to GDV and contribution is something we want to be moving away from. Whilst we can provide commentary on directional data and whether a customer is meeting, exceeding or is lower than management expectations, given our customers particularly in gaming, compete with others in their local and global market, many are sensitive to the publication of their data, which I'm sure you could understand.

Moving to slide 11, the gift and incentive market had a very strong half as mentioned previously with revenue up 49%. Importantly, GP is up 51%, so it's indicative that growth is not being driven by price but by product differentiation. ECE Germany, Europe's largest mall owner and operator completed their rollout in October with volumes ahead of management expectations. Nordic and Irish acquisitions performed well, in line with their acquisition cases. I would also say that our strategy has always been to acquire gift card companies because they trade on lower multiples and then to accelerate those revenues and margins through product expansion. In both cases we're well on track for that.

Our Nordic business launched their first reloadable program with Instabank, in which our card is used for flexible loan draw downs. Our Irish business, as mentioned previously has signed their first reloadable program with SWIRL Card, with the implementation due in Q4 of this financial year. That's an existing program that has been in market there for quite some time. The ability for us to be both the issuer and the processor was a key component of winning that deal and a key part of the thesis of acquiring PerfectCard last year.

We also benefitted from a renegotiation with our issuing bank in the USA, to release breakage cash to us for programs that have breakage assessed over a longer than 12 month period on the basis that the statistical analysis provides them with the comfort that the cards will not be used again. Thus, they are comfortable with releasing that cash to EML. This provided a one time benefit of \$6.1 million for previously issued cards, taking total operating cash flows to \$17 million for the half year.

It's worth noting that this will be the case going forward with all gift cards issued in the USA. Whilst we've received a one-off benefit in the first half, in an ongoing sense, we will see a closer timeframe between revenue recognition and cash flow generation in our North American gift card business. Resolving that lag or gap that's been a concern of investors for some time. I'd also note that this has been agreed with our USA issuing bank, but different rules apply in different regions and this won't necessarily be replicated in our Australian or Canadian or European business. It doesn't entirely close the gap between revenue recognition and cash flow on gift cards, but it does go a fair way towards it.

Moving to slide 13; our GPR segment, as I mentioned grew revenue and GP by 13% despite LuLaRoe being down. I think that proves we're a big enough and diversified enough business to withstand these types of challenges or down turns in a given customer and to focus on the positives that I've mentioned before, including Betsson in Sweden, the expansion of our program with Bet365 in the UK, that's been agreed and is in progress. The expectation of additional gaming program launches and contract signings both in the US and Europe, in the second half.

A number of GPR launches in Australia in relation to cryptocurrency payout cards which looks an attractive vertical for us and growth in our salary packaging segment, where we've grown from 112,000 accounts to 131,000 over the prior year and have signed a contract with a salary packaging provider to convert - who is an existing customer to convert an additional 25,000 cards to our portfolio because we have a superior product for users in that segment. We would expect that to be accretive to our financials in FY20.

Page 14 is a summary of our VANS business which to keep short and sweet, will meet the \$4 million revenue guidance which we outlined last year. We find ourselves in the position of having to make a choice between investing a lot of resources into the full service VANS business where we are signing customers and enrolling and managing suppliers or to redeploy those resources to USA gaming programs where we feel we have a competitive advantage in a rapidly evolving landscape and one that's obviously global that enables us to leverage the relationships that we have in different markets for long term success in North America.

The sales team for the VANS segment continues to target accretive processing deals and we would expect basis points to be between 10 to 30 basis points on those opportunities. We've got some that are in our pipeline that we continue to work on and we'll advise shareholders at the appropriate time. I'll now hand this to Rob to take us through the financial slides.

Rob Shore: Thank you, Tom, and good morning, everyone. I'll take you through the first half financial results review starting on slide 16 of the pack. As we work through the financial results, once again it's important to note that all comparisons are against the represented results for H1 FY19. We've adjusted this as if the new revenue accounting standard, AASB 15 was adopted in that prior comparative period. We provide a reconciliation as adjusted in the appendices to the presentation and I'll discuss the revenue standard in more detail in the next slide.

To reiterate Tom's earlier point, Group gross debit volume was up 16% to \$4.15 billion in the first half of the year. This converted to higher Group revenues which were up 39% to a record \$47.2 million. All three of our segments; Gifts and Incentives, General Purpose Reloadable and Virtual Account Numbers grew strongly. There was only one North American customer in our GPR segment that proved the headwind.

To start with the Gifts and Incentives segment which experienced stellar growth in the period. There were three main drivers of their revenue growth; firstly, the launch of nearly 100 malls in Germany, GDV growth of 5% on North American malls and that reversed some of last year's declines. This was coupled with higher rates of interchange following our BIN switch project earlier this year and last year. GDV growth from our acquisitions. Our Gifts and Incentives segment converted GDV to revenue at an average of 488 basis points, up from the prior comparative period. That's due to a better geographic mix alongside those higher interchange rates in North America.

In the GPR segment, at the headline level GDV fell \$448 million due to lower volumes with our large North American customer, LuLaRoe. But excluding this customer, the segment GDV grew by 20%. As we've highlighted previously, much of LuLaRoe's GDV is re-spent with the merchant and earns EML no revenue. EML earns revenue on amounts spent on the cards withdrawn at ATM or balances transferred off the card back to bank accounts. Whilst this cardholder spend amount declined, it did slow at a slower rate.

Excluding LuLaRoe, the segment converts GDV to revenue at an average of 119 basis points and we see this rate being stable moving forwards. Overall, including the headwind from LuLaRoe, GPR segment revenues still increased 13% to \$12.3 million. There was no impact to AASB 15 on this segment.

In the VANS segment, processing only volumes where we provide no value add services such as merchant signup, form the bulk of the GDV growth but it converts at only 5 basis points so delivered approximately 40% of the revenue growth, 60% of the revenue growth came from our full service contracts, which continue to grow and yield is approximately 52 basis points.

Whilst the VANS business is a small part of the Group's revenue, because of its high GDV, it remains important in providing scale to the business, particularly in regard to our relationships and credibility with our schemes.

Moving on to slide 17 and there's a couple of important points to talk to with regard to the adoption of the new revenue accounting standard, AASB 15. Firstly, there will be no material impact to the full year results. This only impacts the first half numbers. The only segment impacted is the Gifts and Incentives segment and the only revenue element in the Gifts and Incentives segment that's impacted is breakage revenue. Breakage is just one mechanism through which we earn revenue in the Gifts and Incentives segment. We also earn revenue through lots of different fee types which could include activation fees, load fees, interchange and they're all in addition to breakage.

Overall, breakage revenue in the period was 31% of Group revenues, which was down from 34% in the pro forma prior comparative period. Some of our newer contracts have a lower mix of breakage revenue. As a comparison, in the full financial year 2017, breakage was 52% of Group revenues, so really demonstrates that we're making a meaningful impact in diluting this with other revenue streams.

The impact of AASB 15 is to recognise breakage revenue over the pattern of cardholder spend. What this means is that revenue is now spread over approximately five months instead of being recognised in full in the month of load. The Gifts and Incentives segment is a seasonal segment and it's due to Thanksgiving, Black Friday sales and Christmas. They all occur in the Quarter 2 of our financial year. So, when you look at gross debit volume, which is a volume metric, GDV continues to recognise in full in the month of load. We've got a disconnect between the timing of recording GDV and the timing of recording revenue now under AASB 15. Just as a function of this, you'll see conversion ratios or yields decline in Half 1 and increase in Half 2.



In the six months to 31 December 2018, we loaded \$664 million to gift and incentive cards and we recognised \$32.4 million of revenue. In the second half, we'll recognise a further \$4.5 million of breakage revenue on the \$664 million GDV we're already recorded in Half 1. That's going to translate straight to gross profit margins per 100%. There will be no impact on FY19 full year results. This is the only reporting period where there will be a statutory reporting difference or a prior comparative difference in the statutory numbers.

Moving on to slide 18 now. The big call out on this slide is a project we've been running for about nine months with our specialist external statisticians and our major US sponsor bank. We've restructured our agreement on certain Account Management Fees or AMF programs. They're fee based programs where we collect a monthly fee after a period of 12 months of inactivity on the card. Working with our external statisticians and sponsor bank we've analysed hundreds of millions of cards issued over many years of history. There's plenty of data to provide as statistical evidence of how these programs behave. We've analysed them using what we call the derecognition methodology to establish what the future breakage amount will be. It gave confidence to our sponsor bank that the cash can be released.

Now, instead of converting cash over an 18 to 36 month period after initial card load, we're able to convert breakage to cash, with the bulk of the cash actually received in six to 12 months from the initial card load. We've had a one-off immediate cash benefit on historical loads of \$6.1 million, but importantly there will continue to be an ongoing benefit of faster conversion on future loads which starts to address what's been a key shareholder concern for some time.

Looking at slide 19, gross profit margin of 73% in the first half, up slightly on the pro forma prior comparative period. Over the full year as we recognise the remaining \$4.5 million of breakage gross profit margin in the second half, we expect to see gross profit margins continue to increase. The business continues to operate at healthy gross profit margins. It's been quite consistent as we've grown over the years. We have two main costs of sales; firstly, plastic costs of cards, which we produce using external manufacturers. The second, external bank sponsor fees and transaction fees where we acquire in countries where we don't have the necessary regulatory licences.

We're focused on improving margins in two ways; firstly, we want to see improved economics that reflect the Group's scale. During the period we signed new agreements with our major sponsor banks in North America and Australia. These agreements reduce transactional costs on programs issued by those sponsor banks and benefitted our margins in the period and will continue to do so in future periods.

Secondly, as the Group has grown in scale and where regulations have allowed in Australia and Europe, we've become a principal member of Mastercard. We've gained an e-money licence in Europe and we continue to transition programs to self-issuance. It's easier to launch new programs straight onto a self-issuance model than to transition them because we don't have to recard or otherwise interrupt our customers, which may be necessary if we were transitioning an in-market program. Some programs are easier to move than others.

At the moment we're about a year into a three-year plan. It's going to take some time to complete the transition. Directionally, gross profit margins will continue to increase over the next two to three years aided by this transition to self-issued products.

Looking at slide 20, cash overheads as a percentage of revenue fell to 44% as the Group continues to leverage its growing scale. Investors who followed the company for some time will recognise that we're not a capital-intensive business. The majority of our cost base relates to employees, which makes up about 64% of our overheads. At the end of December, we had 236 employees which includes temporary staff brought on to assist with seasonal peak volumes at the end of the year. About 80% of the increased head count relates to either temporary staff or has joined with the acquisition of PerfectCard back in July 2018.

During the period we've introduced a formal short term incentive plan as we recognise as the Company matures, it's very important for us to recruit and retain the best staff. A large element of our employee base work on building new products and signing new clients and so today's cost base is linked to building tomorrow's growth.

As noted previously, the Group recruited several senior executives in commercial, people and legal roles to assist with the ongoing growth of the Group. Linked with the growth and the employee costs due to acquisitions, establishment of the STI plan and these new executives, total Group employee costs rose 25%. It was significantly less than our pro forma revenue growth of 39%.

The acquisition of PerfectCard, which is a regulated business we own in Ireland and the transition to self-issuance has increased our European spend on risk compliance and professional fees. Also, during the period we've invested in sales and marketing costs towards a new brand revised website, our investor conference, EMLCon and several trade shows which will drive the business forward but with the costs incurred in the first half of the year.

Before we move on to the balance sheet, there's a couple of other items to call out in the P&L. Firstly, the Group receives research and development tax credits in several jurisdictions. With only the Australian return completed in the first half and at less than half the benefit of the prior period. There is some degree of timing differences in this line with the European R&D claims to be finalised in the second half of the year. Share based payments are down as options related to the acquisitions in the US and the UK are starting to vest. Depreciation amortisation increased principally as a result of calendar year 2018 acquisitions.

EBTDA margin rose 2% against the pro forma Half 1 FY18 to reach 29% this period. It reflects that the Group's overheads have remained in line with growth in the Group despite some additional one-off spend now to drive growth in future periods.

Non-cash overheads included about \$900,000 of interest costs relating to unwinding the discount on the contingent consideration payable for EML Nordic and PerfectCard.

On slide 21, we present the balance sheet with headline closing Group cash of \$50.1 million, alongside a \$20.1 million breakage accrual. The breakage accrual represents the remaining portion of funds on gift and incentive cards that we've sold previously, we've received the funds for but we expect to remain unspent and revert to cash in a future period. The breakage accrual is in line with 30 June 2018 and only slightly up on 12 months ago as the restructure and conversion of breakage to cash for those North American programs has offset the traditional breakage coming onto the books with the acquisition of PerfectCard. We expect about 74% of our breakage accrual to convert to cash within 12 months.

Intangibles on our books mainly relate to the five acquisitions we've made since 2011 because the businesses we've bought are not capital intensive, so you typically end up with intangible assets and goodwill making up a significant portion of the purchase price.

Our deferred tax asset of \$20 million is in line with 30 June 2018 and primarily relates to tax losses of around about \$14 million, which are mostly in Australia.

Contingent consideration of \$11.1 million relates to the two acquisitions made in calendar 2018 where both have earned out components which we're anticipating being successfully completed and paid out in the future.

We disclosed a \$310 million asset which we show as receivable from financial institutions. This is the money held on deposits with banks on behalf of our customers. This is directly offset by the liabilities to stored value account holders which is the amount we owe those card holders. As we continue to increase the self-issued element to the business, principally in Europe, these amounts have grown and will continue to grow significantly.



On slide 22, we call out our underlying cash flows for the period at \$10.9 million. Given our EBTDA for the period was \$13.7 million, it represents an EBTDA to cash flow conversion of 79.6%, the top end of our expectations. There's always going to be a disconnect between EBTDA and cash flows with breakage booked ahead of cash being collected. That's becoming less material as breakage becomes a smaller percentage of Group revenues and only 31% in this period.

This is before our one-off cash benefit of \$6.1 million, which relates to the North American breakage restructure where we accelerated the conversion of breakage into cash. In terms of investing cash flows, we've paid approximately \$4 million for PerfectCard back on 4 July 2018. We spent a further \$1.8 million on capitalised internal development for innovative products around the world. We've got about \$300,000 on physical computer equipment.

Now, I'll hand you back to Tom, who will take you through the outlook and the 2019 guidance.

Tom Cregan: Thanks Rob. In terms of guidance on page 24, you will note that we are increasing our revenue range from 82-88 to between \$88-\$94 million. The midpoint of which would represent a 28% year on year increase. As I said previously, we're narrowing our EBTDA range to the top end of our previous guidance of \$27-\$28 million, the midpoint of which would represent a 32% statutory year on year increase. Given \$4.5 million of breakage margin is recorded in the second half, we obviously felt good about narrowing that range. We're confident that underlying operating cash flow will be in the 70-80% range and certainly towards the higher end of that range.

Brexit might throw some spanners in the works with respect to FX conversion rates in the last quarter, but we'll just have to deal with that if and when it happens. Given the way in which Brexit is being managed, inverted commas, our decision to buy PerfectCard and obtain a European wide money licence allows us to continue winning new business in Europe without disruption.

In summary, before we take calls, I think strategically we're benefitting from ongoing investments in product development and the broadening of our product opportunities and the cross-sell in each region. We continue to benefit from targeted acquisitions that expand our reach or our expertise. So, you look at something like PerfectCard and the ability to self-issue in Europe, which now provides a far broader, stickier solution to customers when you are the legal issuer of the product as well as the processor as well as the manager, the program manager of the programs in market. We continue to show the benefit of diversification. If I had a dollar for every time I'm asked the question about LuLaRoe, I would have retired as the CEO of EML long ago. That's an example of how a downturn in a single customer doesn't hold the business back. Whilst we don't like to see any of our customers have downturns in their businesses that have a flow on effect to us, that certainly is not within our control to manage.

What is within our control is to have a portfolio of products and a portfolio of customers and a robust pipeline that enables us to outgrow those headwinds. We've expanded our leadership team, certainly in North America. Signs of expanding growth are definitely there. I've mentioned the GPR program that we've launched and/or are launching. Given the time lag between announcing contracts and launching programs we've made a decision to actually focus less on announcing new contracts unless they require it under continuous disclosure laws and focus more on announcing them once they're in market and generating revenues. Deals that we get signed in gaming and other verticals, unless required the announcements will be more of this program is now in market generating revenues from today as opposed to it's a contract signed that could be 12 months away from flowing through to the Group's P&L.

Financially, obviously we're showing good growth on the key metrics. 83% of our revenues are recurring but really at the end of the day most of them are recurring because the difference between recurring and non is what we would call establishment fees and the reality is most of that is recurring as well, because programs that are in market most customers require more cards. Cards expire after three years. You've got a certain reorder component that is just natural within those programs. You've got new programs that are launching and in the future, we'll have customers converting their programs from physical cards to mobile tokens to operate on the Pays network. All of which are part and parcel of the programs.

Whilst, we distinguish them from recurring, in reality one follows the other. International revenues were 78% of the Group, up from 72% in 2018. We're not particularly hung up on that. If Australia were 100% last year in EBTDA terms, if it grew that again that will be great. We're not particularly focused on where the revenue comes from but we just think there are not many companies in Australia in small cap land that are growing at these kind of rates with the international exposure that we have.

Our cash flow conversion was excellent and whilst we won't go into specifics about M&A activity, our intention is to use that cash for M&A activity if the right deals are available. The Board is assessing other capital policies which we'll do over the course of the next six months. There's a lot of questions - I'm sure the questions will be when do we start paying dividends and today that wouldn't be appropriate for me to talk about but I'll say within six months I'll come back with some more information on that.

Probably, my final comment is whilst the expenses were higher than - expense growth was higher than it was in the past really almost 45% of it was the acquisitions of head count from two companies and the implementation of our short-term incentive plan. The rest of expense growth that you would think we would do linked to bringing in new people in the North American business and investments in sales and marketing which are investments that will pay off in the future. With no further ado, I'd open up operator to any questions.

Operator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. As a reminder, if you wish to ask a question you will need to press star and one on your telephone and wait for your name to be announced. If you wish to cancel your request please press the hash key. Once again, it's star and one if you wish to ask a question. Our first question comes from the line of Owen Humphries from Canaccord. Owen, your line is now open.

Owen Humphries: (Canaccord, Analyst) Thanks, guys. Can you hear me?

Tom Cregan: Yes, got you, mate.

Owen Humphries: (Canaccord, Analyst) Congratulations on a great set of numbers and upping the revenue guidance and tightening the reins. Just on that guidance statement just interested to know why you've upgraded your revenue midpoint by six mil but then tightened the range. The incremental margins look quite low. Is that to do with conservatism? Is there large programs you're expecting to launch that increase revenue expectations around lower margin products like card issuance? Just highlight what you are expecting the margin from?

Tom Cregan: Conservatism would be the answer.

Owen Humphries: (Canaccord, Analyst) Got you, okay. Just around restructuring, being able to convert breakage to cash quicker. Does this mean that you guys there will be an off balance sheet liability for example, if there is - it doesn't actually match up or marry up to the expectations, is there a cash outflow expected during the period or later in the period or is this always cash in?

Rob Shore: It's going to always be cash in. It's very similar to how we treat our de-recognition. There is in theory a liability but it's very remote. The calculations are always done very conservatively to ensure that it is remote and so we don't expect any material throughout any future period.

Tom Cregan: When our issuing bank is relying on the statistical data that we use today on the programs that aren't C based, so on programs that just have a natural expiry, the issuing bank always maintains a hedge anyway. If in theory, the breakage due and payable to us was five, the breakage that we would have recorded and they would have recorded would have been 480, because they've got the liability ongoing. If some individual at some point in time pops up in 10 years and says you owe me \$5. It's the same with respect to the cash that's being released.

Rob Shore: We've analysed a huge amount of data and we're talking 150 million cards over many, many years of data. There's statistical evidence that we've got available is pretty significant.

Owen Humphries: (Canaccord, Analyst) You guys didn't accept a discount at face value just to get the cash in the door upfront to satisfy greedy shareholders?

Tom Cregan: No.

Owen Humphries: (Canaccord, Analyst) Okay, just in regard to--

Tom Cregan: One point on that, it might seem counterintuitive but actually, someone might ask a question of why would a bank release cash in advance as opposed to sitting on it. In the US and it's an Obama-era law, so it's a 10 year plus law for the Durbin Act which actually came in when all the banks were failing, that imposes different regulatory restrictions on banks based on their asset size. MetaBank being MetaPayments being our main issuer generates most of its revenue from fees from managing prepaid programs and other things. They've only got from memory 10 or 12 branches that operate as a bank. The rest of it is more of a transactional bank. It's in their interest to actually get rid of the cash. It suits them because it keeps them under the Durbin cap. A bit of a counterintuitive one but that's the fact.

Owen Humphries: (Canaccord, Analyst) Got you, now in the past you guys have talked about US gaming being one of your largest opportunities over the next three to four years and obviously you're resourcing ahead of the curve and you've got one product in market. There's no slide in the pack around that opportunity. It is deregulating. Can you maybe just highlight where we are today? Is it marrying your expectations as these states by states be deregulated and in talking to your current gaming partners, who obviously will enter the space at some stage, are they being more aggressive, more conservative and just around the expectations or your product in market? What are they thinking?

Tom Cregan: I think I would say it's a - I know it's a cliché, but it is an evolving landscape. There are states such as New Jersey that have passed legislation to permit mobile betting, so betting as we would come to think of it in Australia, where you don't have to be at a physical premise. There's a bunch of states that have laws on the floor being passed that permit mobile betting, fully mobile betting. Our customers will decide which - the customers and the prospects we're talking to will decide what state they want to go into based on the size of that particular state and the attractiveness of it.

I would say that the amount of states that are putting legislation forward is coming up at a pretty big cliff. We didn't include it in the slide because it risks spruiking it which we didn't want to do. As an example, New Jersey has 9 million people, so we're active in a market that's got half the population almost of Aussies. Not quite, but close. Pennsylvania, will support mobile only betting. It's got 13 million in the state of Pennsylvania. Ohio, these are all mobile only or mobile inclusive of physical, 11.5 million people. Virginia, 8.5 million people. Tennessee, Missouri, Kentucky, Connecticut, Arizona, South Carolina, I mean they're all 5 million plus states with the exception of one, being Connecticut.

Only last week, Iowa, which would have a smaller population but Iowa put forward a similar bill, as did Texas. Texas is the interesting one for me given it's got 30 million plus people. It has no, there are no casinos there, so I would have thought that Texas would be a state that would be late to the game because it's in the Bible belt but it's also pro-business. It's moving pretty rapidly with the states that are legislating it. The Jersey, if you look at the data that's published in the - the state of New Jersey publishes their data I think monthly. Betting volumes are in the 100s of per cent up in the space of two or three months. The latent demand for the product is going to be extraordinary.

I can't remember who it was but one of the banks said that they thought the market at maturity would be \$600 billion a year of spend, which is 30 times the Aussie market, but that will take years to evolve as the states legislate. Our strategy is simple. We're selling into existing partners that we already have or we've already been selling to who have indicated an interest to move to the US. We're aiming to close those deals and then work with them. As I've said a

couple of times, I think it will be a market that is dominated by a few. In Europe, there's a plethora of different gaming operators who can choose to operate across Europe or only in certain geographies or only in certain countries.

Balance sheet will win in the US. It will be the big players that I would expect to be successful over there, which are the Stars Groups, the Bet365, the GVCs; companies that are worth billions of dollars that have the balance sheet to play. Our strategy is simple. That's who we're selling to and we'll partner with them as they decide to launch into those different states.

Owen Humphries: (Canaccord, Analyst) Okay, great and maybe a side question apart from the exciting US, just on the effective interest rate on the stored value. I noticed that went down. It's part of the investment piece in the past that you guys have received interest on stored value. Can you maybe highlight - that's been trending up for the past three years but then dipped down in the half, so maybe a question for you Rob, just why the interest rates are going up, why that reverted?

Rob Shore: Yes, Owen, you've probably got to look at where the growth has come from when the G&I segment. We've had a significant growth this period in Europe. You've got a euro rate of zero or even negative in some cases. That's large volume there. So, the euro and Sterling make up a significant percentage of the stored float. We also, that stored float grew very, very rapidly at the end of the half as the money flowed in around about the Christmas time. As it always does but it pumps the denominator of that equation up because you've got all this extra float that comes in, in the last month of the year. Overall, we still expect positive signs in the US and Australian markets with interest rates.

Owen Humphries: (Canaccord, Analyst) Good one. I might step back in the queue and let others ask some questions.

Operator: Thank you so much. Our next question comes from the line of Killian Murphy of Petra Capital. Your line is now open.

Killian Murphy: (Petra Capital, Analyst) Thank you. Morning, guys. Just a quick question in terms of the UK gaming market. I know you're not commenting on individual customer, so maybe even directionally, GVC we have an agreement with, maybe you could give an update in terms of the timeline for when brands will launch in geographies and that kind of thing. Equally Bet365, obviously it's somewhat live in the UK, is there going to be a full rollout on the horizon any time soon or expansion into other markets across Europe?

Tom Cregan: Yes, good questions. I'll probably go in reverse. So, 365 for about two years has been an invite only program. You would join, you would become a customer of 365 and then if you exhibited certain behaviour, betting behaviour, withdrawal behaviour et cetera the card would be marketed to you. Despite the fact that that was a pretty selective invitation if you like, controlled fully by Bet 365, that program is equivalent to about a third of our entire Aussie business in gaming.

What is happening is that now is being broadened. It will still be an invite only product. It will be an invite to the base. Over the - as you join, without all the algorithmic analysis behind it, you'll be offered the product. A fair question over the last year and a half has been well, what's taking so long to expand that program? There's a couple of answers to it but really it's incremental cost for them and so what they wanted to do was just simply analyse the P&L impact to them of a customer with our card or a customer without. That might be a simple piece of analysis to do but when they're operating in 200 countries and they've got multiple other priorities, those things just take time. We were just patient and let that take its course. That analysis has proven that to be the case. That's in play as we speak.

We've been talking to them about other markets in Europe as well for a while but now that the UK program expands it then enables us to focus on some of those other markets. GVC I'll probably just play a dead bat to that in the sense that we'll communicate when those products are in market and which ones are in market, what countries they've launched

in. It's I would say well underway. Planning is well underway. Program approvals are well underway. There's a lot happening under the surface but what we'll do is just announce it to the market when they launch.

Killian Murphy: (Petra Capital, Analyst) Okay, great, thanks. Just one follow up if I can. Just on the salary packaging market in Australia. I think you've talked in the past about potential opportunities with tax complaint products in Queensland and New South Wales, is there any update we can have on that?

Tom Cregan: Not on the Queensland one. Obviously, we're growing our portfolio with the customers we have. The Queensland government has never allowed their employees to have a card. It's never been part of their entitlement so they have salary packaging but it's not on a card basis. Queensland Government is really McMillan's customer, so it's McMillians' doing the selling to the Queensland Government in conjunction with us. So, I probably wouldn't want to say too much about it because it's probably McMillan's that would want to comment about how they think that progress is going. We said last year I thought it would be a long process. Years in the making and that will be the case but I'd probably defer that to McMillan's to give a more specific answer as to how they think it's going and whether they think they'll get that over the line.

Killian Murphy: (Petra Capital, Analyst) Okay great thanks, guys.

Operator: Thank you so much. Our next question comes from the line of Ron Shamgar, Tamim Asset Management. Your line is now open.

Ron Shamgar: (Tamim Asset Management, Analyst) Hi Tom, hi Rob, how are you doing?

Tom Cregan: Morning, Ron.

Rob Shore: Hi.

Ron Shamgar: (Tamim Asset Management, Analyst) Great results, very happy. Most of my questions were answered but just in regards to the European gaming customers you've signed 18 months ago. You've launched in market [Betson]. You've got Fortuna and GVC. Do you still expect them to go in market in Q1 FY, calendar 19 as you mentioned last year?

Tom Cregan: FY19 yes.

Ron Shamgar: (Tamim Asset Management, Analyst) Okay, and then just the other question is in regards to acquisitions, I know you mentioned in the past that you're obviously looking but multiples and expectations were just too high. Are you seeing anything changing there in terms of expectations of vendors?

Tom Cregan: No, not really. It's a difficult one to talk about in broad terms. Or sorry in specifics, but in broad terms we're often communicative about opportunities but they've just got to be the right opportunity. We're sitting on a lot of cash. We're not going to go and blow the business up by spending 50 on a business that will grow the top line and it will look great and then in a couple of years we're trying to fix it up. We're pretty careful with what we look at and it's just got to fit a lot of different criteria.

Even the one that we announced last year and January and June was the Nordics and Ireland, they didn't get a lot of attention because they weren't headline grabbing deals. They weren't mega deals. They were \$7 million, \$8 million, \$10 million deals. Yet, Presend doubled its business. PerfectCard has doubled its business. PerfectCard enabled us to get ECE. One of the reasons that took until October is EC wanted us to be the issuer. Their view was I don't want to be in a two party agreement here where I've got Company X as my issuer and I've got you as the manager. They wanted us to be all of it, which we are.

That acquisition has enabled us to win a bunch of business. So, they're not headline grabbing but they're effective deals. We continue to look but I would say that our - the bulk of our efforts are on the operational part of the business. There's a lot going on. There's an enormous pipeline of activity. Our focus is on that more than out there chasing deals left, right and centre.

Ron Shamgar: (Tamim Asset Management, Analyst) Yes, and I know you don't want to comment on individual customers but just on directionally in terms of Caesars and that launch. Is that ahead of expectations, behind?

Tom Cregan: It's - I think we said a year ago, well probably not a year ago but in August we said I would take it out of anyone's model for the whole of FY19. I would say I'd still hold that to be the case yes.

Ron Shamgar: (Tamim Asset Management, Analyst) Just a final question for me, just in terms of generally I've noticed some commentary but interchange fees with Visa and Mastercard in the US, potentially going up. Where do you see that heading and how does that impact you positively or negatively?

Tom Cregan: Yes, the rates are pretty small. Visa and Mastercard are putting up their interchange but they're actually putting it up by two basis points. It's a pretty de minimis change given what interchange rates are in the US. It's on open loop programs. On reloadable programs and the like. Most of our gift cards, in fact all of our gift cards in the US are private label. In other words, they will run on the Mastercard network but they don't have the Mastercard logo on them. The simple reason for that is that those cards are more expensive for the malls. The malls are happy to just have a card that will work on the network without the Mastercard logo being there. Interchange rates on private label were - they didn't move. The impact will be zero.

Ron Shamgar: (Tamim Asset Management, Analyst) Okay great. That's it from me. Thanks guys.

Tom Cregan: Thanks Ron.

Operator: Thank you so much. Our next question comes from the line of James Bradley, from Wilsons. James, your line is now open.

James Bradley: (Wilsons, Analyst) Hey guys, congratulations on the result. Just one from me and apologies if this was asked previously, I may have missed it. Operating cash flow number, the 10.6 there, I understand that that doesn't have any impact from the one off benefit but the conversion that you guys are guiding to is very strong. Can we expect that in outer years, thinking FY20 and FY21 as well?

Tom Cregan: Yes. I mean it's been a goal of ours for years really to - as any investor would reasonably want to see a closer correlation between revenue EBTDA and cash flow. The more correlated that is, the more easy it is to understand the business. If we went back two years where gift card revenues I think were 53% of Group revenues, you are obviously going to have a big disconnect between the revenue recognition and the cash receipt component of that. We've been working to improve that and part of that is GPR. Part of that is reloadable because it obviously has no breakage.

Part of that is negotiating deals with clients that have a lower percentage of breakage and a higher percentage of upfront. Which is how we've restructured some of our deals in Europe recently. In our mall business in Europe. We're getting more upfront and less on a deferred basis. Then in the US, obviously the restructure with Meta on our cards there, brings forward cash earlier. Yes, we would consider that 70-80% high into that range and as reloadable grows as a percentage of the business that number should get better as well.

James Bradley: (Wilsons, Analyst) That's perfect thank you.



Operator: Thank you so much. Our last question comes from the line of Chris Bainbridge from Pie. Chris, you may now ask your question.

Chris Bainbridge: (Pie Funds, Analyst) Hi Tom, hi Rob, congratulations on a fantastic result.

Tom Cregan: Thanks Chris.

Rob Shore: Thanks Chris.

Chris Bainbridge: (Pie Funds, Analyst) Obviously you mentioned there that Bet365 at the moment it's been an invitation only program but it's comparable to about a third of the Australian business. Can we get a sense for what percentage of their customers are actually using it at the moment and potentially how broad or how large that program could be once it's opened up to everyone?

Tom Cregan: Yes, I wouldn't comment on how many customers they have. I mean just one of our challenges are, obviously that would be sensitive to them and we've got confidentiality agreements in our agreements with all of our customers. We've got to be careful about how much we can divulge about what percentage of their base has a card.

What I can say is that the opening up of that program to a broader audience would probably double the customer base with them today. I would think. Over the course of the next 12 months into FY20. Which we're obviously excited about. It's been a work in progress but yeah we're excited about that but I wouldn't go into detail about how many card holders they have other than just to say it's a third of the Aussie business. It would be fair to assume if the business doubled probably on a run rate basis by the end of FY20 it's the same size - it's probably half the Aussie business or two thirds the Aussie business I should say.

Chris Bainbridge: (Pie Funds, Analyst) Right and just on the tax, so I noticed that in terms of cash, you actually received some tax back. What tax shield and what can we expect in terms of tax paid going forward this year and next year?

Rob Shore: That's a difficult one in terms of we've got obviously operate in multiple countries. We've got large tax losses in Australia. We've got losses in the UK. We're tax paying in the US and Canada. There's a bit of a mixed bag around the world for tax. Then you've got the impact of things like the vesting of options also and the tax that we pay in an individual year, so the timing of when they vest will also impact it. Essentially, we've got roughly \$14 million of tax losses, so overall as a Group we're going to be in the low tax paying ranges for the future.

Chris Bainbridge: (Pie Funds, Analyst) Right okay and then in terms of that 1.8 million on intangibles? Should we double that spend into or maybe 2 million bucks on CapEx total, should we double that spend for the full year and how should we think about that going forward?

Rob Shore: Yes, I would. I mean it's in line with prior years and it's really reflective that we've got some exciting things that we think we can invest in and develop new products in. We haven't run out of ideas to keep investing in the technology.

Chris Bainbridge: (Pie funds, Analyst) Right, would it be fair to say that for the next maybe a year or two years if you're not really paying any tax and if you're not really paying any tax and your D&A is comparatively low or your CapEx is relatively low that EBTDA is a closer proxy to NPAT?

Rob Shore: Yes, it will certainly start to align over the future coming years yeah.

Chris Bainbridge: (Pie Funds, Analyst) Right okay. Sound great. That's all from me.

Tom Cregan: Thanks, Chris.

Operator: Thank you so much. There are no further questions at this time. Please continue, speakers.

Tom Cregan: Yes, so thanks, operator. If there's no questions, we'll call an end to the call. Thanks.

**End of Transcript**