



## **2019 AGM speech – Stephen Harrison, Chairman**

### **Introduction**

I will report to you briefly on the financial and operating performance for the past financial year, but more importantly, I'd like to focus on how the Company is moving forward to better position for profitability, future operations and Shareholder value.

### **Disappointing results**

In the past financial year specifically, gross revenue was \$64.6 million, Underlying EBITDA was a loss of \$7.4 million, with \$7.1 million of this amount realised in the second half of the financial year. Negative operating cash flow was \$13.3 million. Net loss after tax from ordinary activities was \$37.9 million, compared to \$62.2 million in the prior financial year.

I would like to acknowledge that the results over the last two years have been disappointing. Our losses totalled \$100.1 million, our reduction in net assets totalled \$36.6 million, our reduction in revenue totalled \$11.2 million and our reduction in market cap was \$56.7 million.

There are key and known reasons for our decline in results; significant losses from discontinued operations including Bartercard and Gruden, the Company incurring unsustainable cost levels and expenses, year on year decline in our core Entertainment sales, a lack of historical investment in technology and a lack of focus on our core division.

### **Strategic operational review**

These were among the key reasons that during FY2019, the Company announced a strategic review of its operations and organisational structure. Over the past ten months, we have made significant progress in our strategy to refocus the business, having sold the Bartercard operations, including the UK and US businesses, and the Government, Enterprise and Performance Marketing business streams of Gruden. The pursuit of

international operations was completely scaled back, with the focus on new growth and market opportunities across Australia and New Zealand only.

### **Change to Board and Executive**

There has also been significant change across both the Executive Team and the Board, and before I outline those changes, I'd like to officially welcome Mr Henry Jones to the position of CEO. Henry has more than 25 years of executive experience, predominantly in the technology sector, having held senior positions at IBM across Australia, New Zealand and North America. He is also an entrepreneur, having been involved in a number of small disruptive ventures. Henry has an MBA from Harvard and a Bachelor of Law from the University of Melbourne. His appointment as CEO is key to leading and accelerating the Company's turnaround and building on our existing and solid foundation.

Key people changes that took place included the resignation of Darius Coveney from his role as Chief Financial Officer in November 2018, followed by Iain Dunstan, the previous Chief Executive Officer who also left in December 2018. During his notice period, Darius took on the position of Acting Chief Executive Officer from December 2018, a position he held until August 2019. Executive General Manager - Retail, Heidi Halson, also left in August after 25 years with the Company.

Other resignations during the financial year came from the Board and included Murray d'Almeida, Naseema Sparks and Chris Berkefeld.

There have been four new appointments to the Board; I, Stephen Harrison, was appointed as a Non-Executive Director in February 2019, and as Interim Executive Chair in June 2019. I relinquished the executive role upon Henry's appointment in October; Jeremy Thorpe was appointed as a Non-Executive Director in May 2019; Dr Charles Romito was appointed as a Non-Executive Director in June 2019; and Dean Palmer was appointed as a Non-Executive Director in August 2019. The current Board structure now represents each of the Company's major shareholders.

### **Funding for turnaround**

In August this year, we announced to the market that the Board had made an agreement with Suzerain Investments Holdings Limited to fund the short-term strategies and value

creation initiatives of the Company by way of a loan, and if shareholder approval is received at this meeting, a Convertible Loan. This saw the major shareholder provide a debt funding package of up to \$19 million to provide critical cashflow to fund current operational losses and invest in a business turnaround strategy.

A key component for the provision of this funding was the removal of \$10 million of operating costs from the business, and the appointment by the Board of transformation and business change specialists. Following an initial audit and review of the Company, high level issues were accurately identified and key strategic initiatives to turn the business around were outlined.

They include a clear and defined focus on the core Entertainment business to reverse the declining sales trend; the shift to a 100% digital model based on member trends already showing 60% App take-up over the five years since launch; right-sizing the business with a significant cost reduction program including redundancies across most areas; enhanced sales strategies including a more cost effective Inside Sales & Customer Service model, expansion of distribution channels, greater investment into marketing, product and development, and the appointment of key executives to drive the business forward. All of this is well underway and will be discussed by Henry in further detail.

### **Business stabilisation**

In just four months we have managed to achieve significant business stabilisation, including the recruitment of a CEO. We have removed duplication within the Executive team, and with that \$1.7 million of annualised salaries. We have restructured the sales team with the redundancy of 54 people and are on track to remove approximately \$6.8 million of employment costs. We have made initial reductions to other teams, with final restructuring still due to take place in others. We have closed six offices, with additional closures intended in the new year. While it has not been pleasant, it has been necessary.

### **Moving forward**

We know that the next 6 to 12 months will be a critical period for the business and we understand that it is not without risk. However, the Board and Management are well aligned in our thinking and intended actions. We've gotten through a tough period and we have a 25-year history that we intend to continue

I'd like to thank my fellow Board members, IncentiaPay employees and our shareholders for their perseverance and patience. We look forward to communicating with you more frequently over the coming months to keep you updated on our progress.

I'd like to hand over now to our CEO, Henry Jones to present you with the future strategic direction for IncentiaPay.



## **2019 AGM speech – Henry Jones, CEO**

### **Introduction**

I joined IncentiaPay for many reasons, but key to me was: (1) A company with revenue and solid assets (2) that has up until now, failed to pivot to the new technology enabled world that we live in, and, (3) for which I can successfully lead the required transformation. Of additional importance was that IncentiaPay delivers a broader social purpose, which will continue to be at the core of our strategy.

Before outlining how we will deliver, I'd like to firstly ground us in the solid foundation we have to build upon and recognise the untapped potential that exists for our Company.

### **A solid foundation to build on**

Firstly, we have known and sufficient funding to complete the turnaround. We will use this funding prudently and strategically to ensure that the core business is self-sustaining.

Secondly, we have supportive major Shareholders (including SkyBound, Hayaat and Sinetech) who are committed to our turnaround and the implementation of a long-term strategy.

Thirdly, we have an enviable stable of assets: (1) A well-recognised, trusted and credible brand with a 25-year history, (2) over 12,000 Fundraiser Groups, (3) 10,000 Merchant Partners with high level brands and best in market offers, and, (4) more than 400,000 Members across Australia and New Zealand.

Members: Our premium and affluent Member base have an average income of over \$128,000. More than 40% of our Member base have been with us for six or more years, and we have a known renewal rate of 62% with Members that redeem 10 or more offers a year.

Merchant Partners: We have the largest database of quality Merchant Partners, unique coverage across multiple category types including dining, travel, activities and retail, and

best in class savings that are guaranteed at any time without multiple restrictions, unlike other players. Our Members have access to the most exclusive restaurants, wine dinners and experiences, all at discount prices.

Fundraiser Groups: We are strongly anchored in local communities with deep connections across our Fundraiser Groups. We provide a unique yet simple fundraising opportunity for our Fundraisers and their supporters, who in turn, are our Members. Fundraisers have always been and will continue to be core to our value proposition.

Finally, the real value lies in the tripartite relationship between our Fundraiser Groups, Merchant Partners and Member base that no-one else has. This is a unique competitive advantage upon which to further build our future.

### **Tapping untapped potential**

We have untapped market potential both in terms of growing the number of Members and our household penetration, and the value of additional services that Entertainment could provide to Fundraisers and Merchants - and in return, derive a revenue stream from.

Focussing on our prime revenue source, our Members, we currently have just over 5% of the total addressable household market across Australia and New Zealand. Our household penetration rate ranges from 2.81% to 23.41% depending on city. We see significant potential to focus on increasing household penetration rates in those cities where we are currently below 10%. Based on our highest city penetration at over 23%, there is opportunity to drive organic and inorganic growth in our Membership.

### **Moving forward – the road ahead**

The road ahead has four phases: (1) Turn-around - consisting of cost reduction, focussing on our core business, book to digital, and new channels; (2) Business Foundations - ensuring that we have the right platforms, operating model, team and strategy, upon which to build more Client value; (3) A longer-term strategic focus for organic and inorganic growth; and (4) When we have made substantial progress on the above, we will turn our attention towards building our street brand through activities including public relations, media and investor relations.

[Turnaround]

As Stephen outlined, we are executing on our turn-around strategy with the majority of the cost take-out completed, and a 50% reduction in overhead driven mainly by labour, printing and office rationalisation. In addition to cost take-out, we are focussed on three key pillars: (1) Our core business (2) Our digital offering, and (3) Testing new channels.

**The Core Business:** Our current focus and investment is on the core Entertainment business, to reinforce the unique tripartite set of relationships I previously described.

**100% Digital:** Following consultation with customers and stakeholders, we have formally commenced our transition from print to digital - after 25 years, this was the final edition of the book, and from here on, we commit the Company to a digital only future. Campaigns have commenced to manage the transition of book Members to digital, including free trials for the digital version of the Entertainment Membership.

**Testing new channels:** While our existing Fundraiser Groups remain our primary focus, we will trial new ways to drive new memberships, for the Company and for the Fundraiser community. As an example, we are trialling direct to member marketing and the use of Merchants as a new distribution channel. In all instances, we will maintain support to the Fundraising community with every single sale. This community value remains at our core.

[Business foundations – for Client value]

From now for at least the next 12 months, we will also be defining and implementing the foundations required for an efficient, long-term business that maximises client focus and can take advantage of market opportunities. This includes reviewing and redefining everything from Culture, to People, Organisation, our Operating Model and platforms, so that we can increase the time spent focused on our Fundraisers, Members and Merchants.

We have appointed:

- Ben Newling as our Chief Operations Officer. Ben was previously the Head of Commercial for IncentiaPay;
- Linda McDonald as our new CXO, responsible for Marketing, Product, Innovation and the Client experience; and
- Desmond McLellan as our Financial Controller.

We have completed a significant restructure of our largest team, sales, and as part of our drive for efficiency and effectiveness, have set up Inside Sales and Customers Service teams. These teams will focus on the acquisition and account management of our smaller Fundraiser Groups, in-bound enquiries and eventually, will be key to lifecycle management.

We have started the work to transform our culture, values and behaviours. We are committed to defining a Company direction that gives purpose to the roles of our employees and an agreed set of values to work to. We are improving communication and information sharing, identifying the best platforms to do so and providing transparency with regards to the decisions that we make. And all of this will be centred on a 'One Team' approach in service of our Clients.

[Improved customer experience]

We have begun the process of more deeply understanding our Clients and improving their holistic experience. For example, we have revamped the member join process, and improved the look and ease of interface use to remove some of the barriers to purchase. We have also launched a "rolling membership" with new standard pricing options, giving the ability to subscribe at any time and enjoy a 12-month membership from any start date. This is an example of enhancement facilitated by going digital.

We intend to continue the focus on our Client experience and use our research and feedback to drive future roadmap development. As we continue to grow, there will be a progressive shift in how we, as a Company, manage customer experience, and this will be largely driven by our new operating model and technology. A highly customised, seamless and automated Member experience is our future, underpinned by insights and digital strategy to drive lifestyle and entertainment experiences.

[IncentiaPay's longer-term strategy]

As we execute on the first two phases, we are also working to define our medium to long-term strategy to 2023 and beyond. In so doing, we are reviewing Member, Fundraiser, Merchant and Corporate client needs, competitor and market forces, and potential strategic relationships. The objective is to agree on a series of options and execution criteria to deliver more value for our Clients and long-term capital appreciation for our Shareholders.



[Branding and external communications]

Only once we have made solid progress on our turnaround, building the business foundations and establishing our longer-term strategy, will we turn our attention to brand awareness and public relations. We expect to commence such activities around this time next year.

In summary, we have strong foundations, a significant opportunity to deliver better value to Clients and Shareholders and plans to execute. The future is in our hands.

[Shareholder communication]

We will communicate with you transparently and regularly. In addition to our half year results in February and our full year results in August, we will also release quarterly cash flow and management communications at the end of January, April, July and October.

For any investor relations questions you might have, you can email us at [investorrelations@IncentiaPay.com](mailto:investorrelations@IncentiaPay.com) or call our Company Secretary.

## **Close**

In closing, I'd like to thank our Members, Fundraisers, Partners and Corporate clients for their loyalty, use of the platform and for being our most vocal champions. I'd also like to thank you, our Shareholders, for your faith in the longer-term potential of this Company. Finally, I must thank the team at IncentiaPay for their hard work, dedication and Client focus, in a period that has been extremely challenging.

I'm excited to be part of the team, to be making an immediate impact and to be the custodian to shepherd this storied brand into the next quarter century of its history. Thank you for your ongoing support.

- ends -



# Annual General Meeting

20 December 2019

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IncentiaPay is a community-based loyalty platform driving relationship value between Fundraisers, Partners and Members.

Its core business is providing Entertainment Memberships to both consumer households, and as a loyalty program to corporate organisations.



# A solid foundation to build on



## Turnaround funding

- Secured
- Use prudently and strategically
- Self-sustaining core business



## Major shareholders

- Supportive
- Committed



## Enviably assets

- 25-year history
- 12,000 Fundraiser Groups across AU and NZ
- 10,000+ Merchant Partners with more than 12,500 individual merchant offers
- 400,000+ affluent member base across AU and NZ

# A unique competitive advantage



**Reach** across Australia/New Zealand of +400k members

Premium, mass-affluent membership base

**\$128k** average income

Loyalty to product

**6 years** average tenure

**Stickiness** to product

62% renewal beyond

10 redemptions

Members



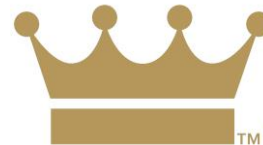
**Largest merchant base** of 10,000+ unique merchants

**Cross category coverage** across dining, travel, activities and retail

**Exclusive & best-in-class discounts** – guaranteed at any time, off entire bill unlike other players

Access to the **most exclusive restaurant** discounts – thanks to our closed user group

Fundraising partner



Merchant growth program

Local community builder

Not-for-Profit



Strongest anchoring in **local communities** with deep connections across 12,000 NFPs

Unique fundraising activity, **offering value** back to the donor

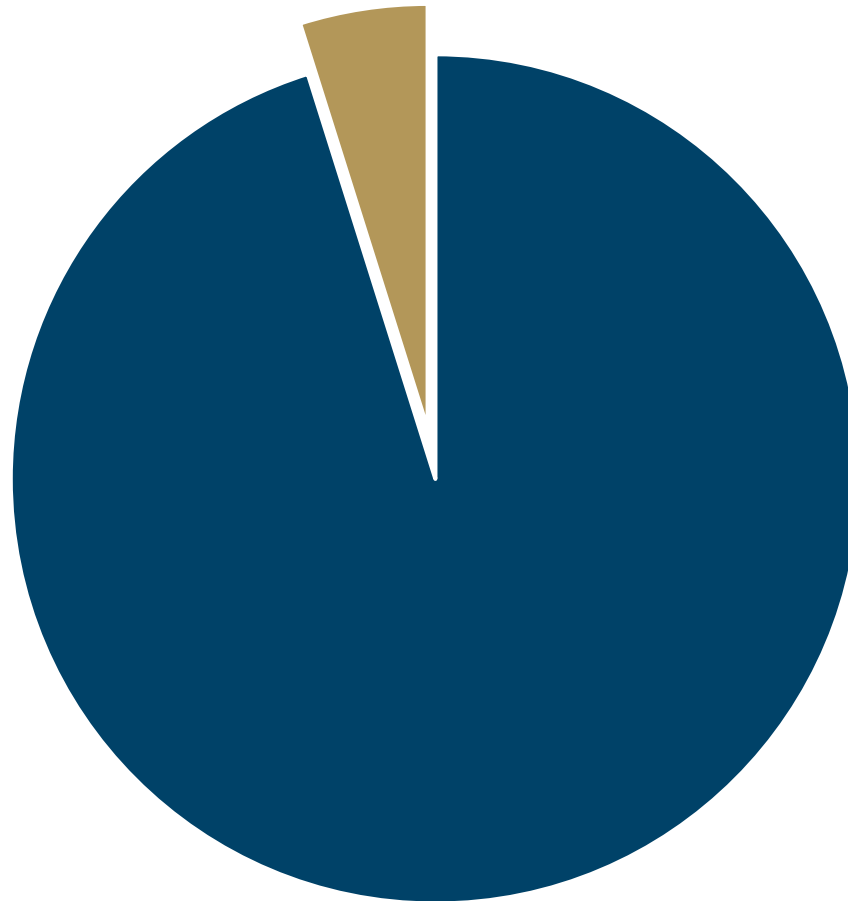
Merchants & Partners

# Untapped market potential

- Untapped market potential in terms of growing the number of members / household penetration and value of additional services that Entertainment could provide and drive to Fundraisers and Merchants and in return, derive revenue from.



A member base of 400,000 or household penetration rate of 5%



A total market potential of 7,835,416 households across Australia and New Zealand.



# Four phased transformation for capital growth

