

20 May 2020



ASX Market Announcements

20 Bridge Street
SYDNEY NSW 2000

EML QUARTER THREE AND APRIL 2020 BUSINESS UPDATE

EML PAYMENTS LIMITED (ASX: EML) is pleased to provide an update to recent trading conditions and business development activities.

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EML Payments Limited

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

This ASX announcement has been authorised for release by the Board.

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EML.

EML Quarter Three and April 2020 Business Update.

Money in Motion



STRATEGIC FOCUS

- We have had a long-term strategy to deliver revenue and earnings diversification – both through organic growth and strategic acquisitions. Prior to the acquisition of Prepaid Financial Services (PFS), revenue from mall gift cards represented 65% of group revenues (1H FY20) and prior to Covid-19 could have been expected to be approximately 55% for the full year.
- The acquisition of PFS was a central plank in our strategy of re-balancing revenue across our segments. For example, if PFS had been in the EML consolidated financials for the month of March 2020, 56% of revenues would have come from General Purpose Reloadable (GPR), 37% from Gift & Incentive (G&I) and 7% from Virtual Account Numbers (VANS).
- Mall closures, social mobility restrictions and social distancing requirements will significantly impact mall gift card sales for the remainder of FY20. However, we are hopeful that volumes will start to recover as lock downs ease and economies re-open. We have suspended earnings guidance because there is no reliable data on when and how that may commence and over what time period. It is also difficult to predict how economies will respond and the impact of weaker economic conditions on mall gift card sales.

UPDATE ON PFS ACQUISITION

- The acquisition of PFS, a multi award winning European provider of white label payments and banking-as-a-service technology will make EML one of the largest global prepaid fintech enablers.
- This is an exciting time for the combined EML and PFS businesses. We are very pleased to see great collaboration between the sales, marketing and business development teams as we look to cross-sell our respective solutions.
- We have commenced a number of integration projects and expect to complete those over the next 24 months. Net run rate synergies of \$6m expected to commence in FY22.
- Further details on current trading conditions for PFS are detailed in the Business Development update below.

UPDATE ON COVID-19

- Our first focus in response to Covid-19 has been the health, safety and security of our colleagues and customers. Given the international nature of our business, we had previously invested in remote working functionality and were able to make a smooth transition to a work-from-home mode.
- EML considers our values and culture to be critical to our sustained success. Ours is an incredibly dynamic global marketplace and our responsiveness, agility and execution are competitive advantages for us, which are all reliant on our team and culture. This has been especially evident in our employees' response to Covid-19 and their ability to adapt to the present environment and its challenges.
- We have taken some steps to manage headcount expenses, including some select redundancies, cost savings because short-term incentive plan targets for FY20 will not be met and implementing general headcount and salary freezes. We will not pursue mass redundancies or significant employee furloughs to drive short term, relatively immaterial upside to our P&L as we believe this to be to the long term detriment of our team, culture and financial performance.

Key Metrics and Financials

Nine months to 31 March 2020 (unaudited)

Unaudited trading results for the first nine months to 31 March 2020 are summarized (below) excluding PFS which is consolidated from 1 April 2020. These reflect strong financial results to the end of February 2020 with deteriorating conditions in the malls segment evident from mid March:

Gross Debit Volume (GDV) of \$9.83bn

+55% over PCP

Gross Profit margin of 75.9%

versus 73.7% in the PCP

Revenue of \$87.1M

+20% over PCP

EBITDA of \$27.0M

+24% over PCP with a further \$2.2M of breakage on December 2019 activations recognized in April 2020.

Operating cash flow of \$27.3M

an increase of \$18.2M over the 1H FY20, representing an EBITDA conversion rate of 101%² due to breakage receipts from gift cards sold in prior years.

² Operating cashflow before tax and acquisition expenses expressed as a % of EBITDA. EBITDA includes R&D tax offset and excludes share based payments and acquisition costs and is reconciled to statutory profit and loss within EMLs FY20 Interim Report released on 19 February 2020.

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EML Dashboard

28

COUNTRIES

468

EMPLOYEES



IN EXCESS OF

\$17bn

ANNUAL GDV¹ (AUD)

GPR

56%

COMBINED GROUP
FORWARD REVENUES

ANNUAL ISSUE IN EXCESS OF

11M

GIFT & INCENTIVE
CARDS

2M

GENERAL PURPOSE
RELOADABLE CARDS

TECHNOLOGY PLATFORMS

SUPPORTING THOUSANDS OF PROGRAMS
ACROSS MULTIPLE INDUSTRIES

Trading Conditions

March 2020:

- During March 2020, the G&I segment experienced the impacts of Covid-19 in some regions. GDV in March was down 29% on the PCP reflecting mall closures for up to 3 weeks in some countries.
- The GPR segment saw GDV growth of 10.4% in March 2020 over the PCP which we expect to continue through Q4 as our Australian salary packaging programs have launched additional benefit accounts.
- VANS segment up 56% over the PCP and on a run-rate to do c. \$9B in GDV for FY20.
- Unaudited Group EBITDA in March of \$1.9M was down 37% on the PCP as mall sales declined, given their disproportionately higher conversion rates and margin contribution.

April 2020:

- Due to social mobility and social distancing restrictions associated with Covid-19, most of our customers in the retail malls segment (with the exception of Sweden) remained closed in April 2020 across our global footprint for the month with the G&I segment GDV of \$31.4M down 53% on the PCP \$66.5M.
- Excluding PFS, EMLs' GPR segment contributed GDV of \$286.5m, up 26% on the PCP driven by Salary Packaging and resilient volumes from our online gaming vertical. PFS which is consolidated into the GPR segment from 1 April contributed a further \$395.3M of GDV to a total segment GDV of \$681.8M.
- PFS volumes in April were in line with the average monthly GDV between 1 January 2020 to 29 February 2020 and up 13% on the PCP of April 2019. Program mix in April was impacted by lower volumes from the more profitable multi-currency and digital banking programs due to lock downs in Spain & France offset by higher volumes in UK Government programs.
- The VANS segment showed minimal signs of impact from Covid-19 with GDV of \$612.5M in the month, up 9% over April 2019. Growth comparisons over the PCP were lower in April than in March due to timing of new customer launches in 2019.
- Unaudited Group EBITDA in April 2020 was \$2.7M (inclusive of PFS) and includes the release of \$2.2M of breakage on December 2019 card activations and the likely maximum impact of Covid-19 with substantially our entire G&I segment impacted globally by lock downs.
- Globally, Central Bank interest rates continue to fall, and in some countries are negative, impacting the interest the Group earns on stored value float balances.
- We expect to see a gradual opening of malls in various countries during May and June 2020 onwards which should represent an improvement to the trading conditions experienced in April 2020.

Balance Sheet

As at 30 April 2020

We are in an enviable position of having the balance sheet to weather any downturn in business and the financial strength to continue to invest in growth and take advantage of opportunities.

At the end of April 2020,

EML holds in excess of \$125M in cash.

YTD operating cashflow (excluding acquisition, tax and interest expense payments) converted at approximately 100% of EBITDA

Contract asset of \$36.8M will convert to operating cash inflows

EML will continue to generate operating cash inflows from breakage on gift cards sold 12 months ago as the contract asset of \$36.8M converts to operating cash inflows. Approximately 75% of the contract asset will be released into operating cash within 12 months. EMLs' contract asset derives from breakage on approx. 11M gift cards previously sold reflecting individually small amounts per card which gives us a reasonable expectation that breakage rates will remain consistent with prior trends.

EML benefited from a one-time cash gain of \$3.77M

as surplus forward foreign currency contracts, entered into in November 2019 for the PFS acquisition, were unwound.

Long term value creation capabilities

EML is in the enviable position of being able to think long-term about what we want the business to look like in 3 years, and to make decisions to fund those actions which will generate long term value creation.

Business Development Update.

EML powers payments for companies in multiple industries, including Government, Charitable, Gaming, Retail Malls, Finance, Salary Packaging, Digital Banking, Multi-Currency, Marketing and Telecoms, and we expect the number of companies we serve to increase as the world embraces digital payments.

We anticipate that Covid-19 will accelerate the take up of digital payments.

We operate in 28 countries, providing a breadth of opportunity for us as markets and economies come through the economic impacts of Covid-19. Our increased size, scale and solutions, married to a strong balance sheet are a competitive advantage.

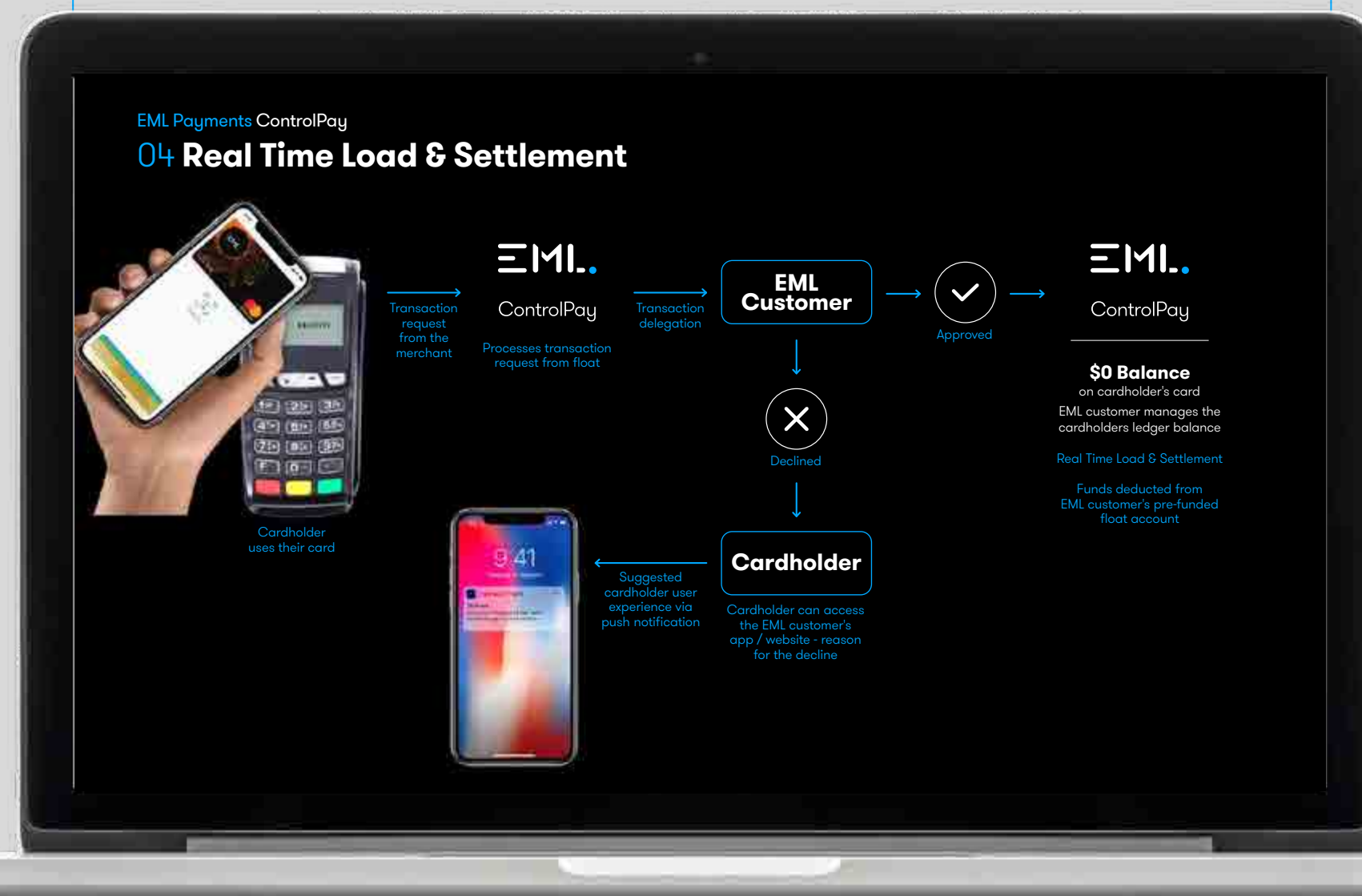
With the addition of PFS into the EML business on 1 April 2020, we operate a more diversified business and a business that has pivoted to generate the majority of its revenue from General Purpose Reloadable (GPR) products.

Customers in various industry segments and geographies have experienced differing impacts from Covid-19; as have we. However, since inception we have been a company that has had a longer-term strategic focus and that will not change. Our focus remains resolute to continue to expand and invest. As we invest in our products, technology and solutions we will continue to focus our energies on envisioning what we want the company to look like in 3 years versus 3 months.

Our continued focus and investment is evident in the number of program launches and new client contracts that we have entered into since 1 January 2020. Individually, we do not consider these to be immediately material, but they reflect the range of ongoing activity in the business:

General Purpose Reloadable ControlPay

- Our ControlPay solution enables companies to facilitate finance to consumers through a fully digitised card residing on a mobile device, allowing the credit provider to make real-time approval decisions on a transaction by transaction basis. EML assumes no credit risk on these transactions.
- In the Buy-Now-Pay-Later (BNPL) space we have launched a pilot program with Zip (ASX:ZIP), we have approval for an launch with Scalapay, our first BNPL customer in Europe, and in April we signed a contract with Sezzle (ASX:SZL) to launch in the North American market.
- In the Neo Lending space we have signed contracts with 3 companies, with programs expected to be live early in FY21.



General Purpose Reloadable Salary Packaging

- Total Salary Packaging benefit accounts have increased to c. 228,000 (April 2020) up from 187,000 (December 2019) with expectations unchanged of ~300,000 by June 2021.
- Successfully launched the New South Wales Ministry of Health with rollout expected to be completed in FY20.
- Continued the rollout of new accounts under our agreement with Smartgroup.
- Signed a contract with the ACT Government Health Department, for ~ 3,000 accounts, and launched in May with roll out in progress.

General Purpose Reloadable Fintech and Digital Banking

- Signed 15 contracts since 1 January 2020 with multiple Fintech and Digital Banking companies using our payments solutions, including those companies whose logos can be seen on page 05.
- PFS has approximately 50 programs of varying size and financial materiality in implementation. Only 4 programs were cancelled by customers in connection with Covid-19. For the remaining programs, it is possible that some delays to launch timeframes are encountered as a result of Covid-19, but it is encouraging that they remain underway.
- Average PFS Gross Debit Volumes for January & February 2020 were up 38.3% versus the PCP on a constant currency basis. GDV growth fell to a 12.0% increase in April 2020 versus the prior year which we attribute to lockdown measures in Europe, and we expect GDV growth to recover as markets re-open.

General Purpose Reloadable Gaming

- GDV in our gaming segment has been resilient despite a lack of live sporting events, as customers shift their betting activities to horse racing and e-sports.
- Like-for-like, GDV is tracking at approximately 10% below the prior comparative period in March and April 2019.
- Since 1 January 2020, we have signed 3 contracts in the USA whose logos can be seen on page 05.

Salary Packaging



Provision of multiple benefit accounts to employees of NSW Health following contract announcement in December 2020.

Rollout commenced in April 2020 with an initial 23,000 accounts.



Provision of multiple benefit accounts to employees of ACT Health.

Rollout commenced in May 2020 with an initial 1,850 accounts.



Continuation of our rollout of multiple benefit accounts to Smartgroup customers.

More than 10,000 benefit accounts transitioned since 01/01/2020



All Salary Packaging customers contracted to transition to a fully mobile CX using our PAYS solution.

Expect transition to be complete by the end of FY22

ControlPay



Provision of single use Virtual Card Numbers (VCN) supporting the Zip Pay Anywhere product.

Pilot program in market since March 2020



Digital payments solution supporting a revolving line of credit product.

Launched May 19, 2020



Digital payments solution supporting in-store POS and online purchases in North America.

Launch pending



Digital payments solution supporting in-store POS and online purchases in Italy.

Launch pending

Fintech and Digital Banking



Powering digital and mobile payments between landlords and tenants.

Launch pending



Powering mobile and digital payments for a start-up neo-bank in Europe.

Launch pending



Powering mobile and digital payments for a Norwegian telecoms company.

Launch pending



Powering mobile and digital payments for a neo-bank in Spain.

Launched January 2020

Gaming



Prepaid disbursement card for winnings in USA. Poker focused.

Launch pending



Prepaid disbursement card for winnings in USA. Horse racing focused.

Launch pending



Prepaid disbursement card for winnings in USA.

Launch pending

Click on any panel to learn more about our client's and their business.

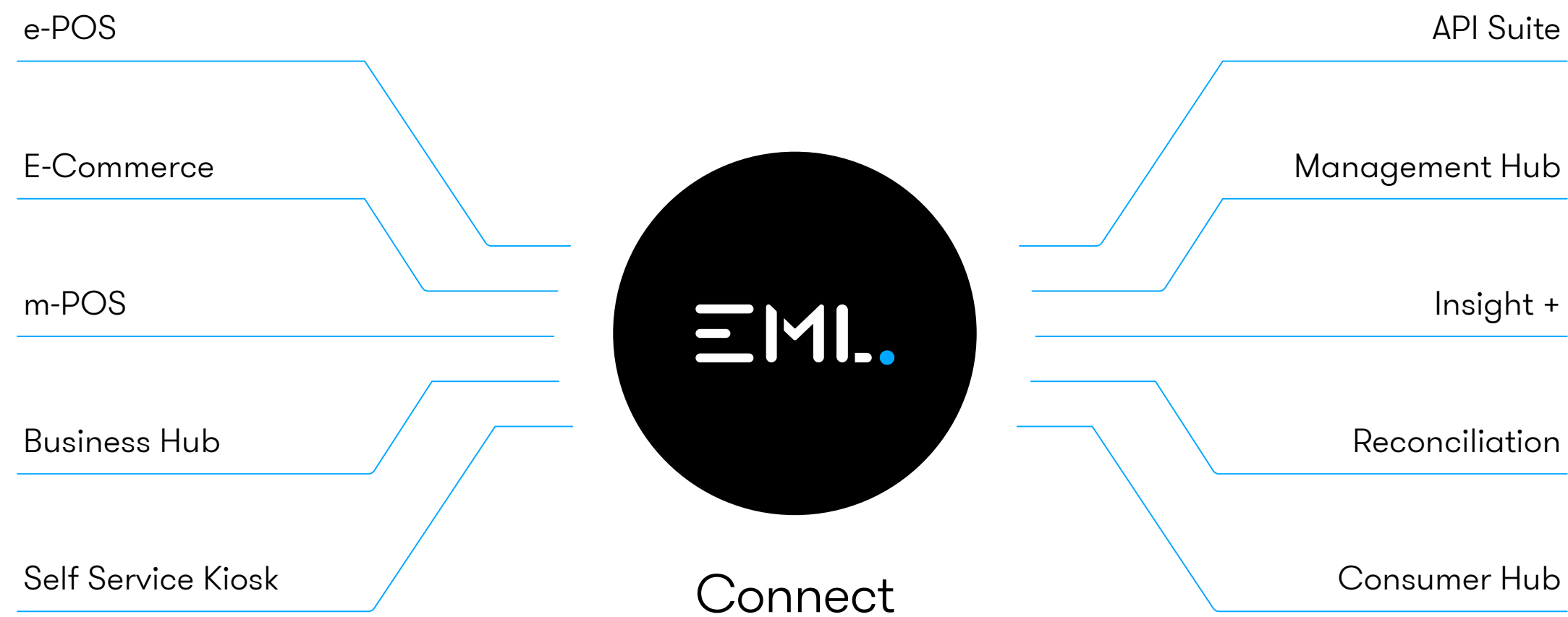
Gift & Incentive

Mall Programs

- Due to social mobility restrictions associated with Covid-19, most of our customers in the retail malls segment (with the exception of Sweden) began closing malls from 10 March and these properties remained closed in April.
- Whilst we expect malls in many countries to be open by the end of Q4FY20, we anticipate varying rules associated with their re-opening on a country specific or state specific basis. In addition, malls that open may have further restrictions on opening hours, restrictions on which merchants within the mall will open, social distancing rules limiting customer traffic and customer service desks where gift cards would normally be sold may be under-staffed or un-staffed during this period.
- It is therefore difficult to provide shareholders with a firm view of when EML's portfolio of 1,100 programs will re-commence, but public statements from our clients would suggest the following:
 - Recessionary forces may impact consumer discretionary spending and GDV levels, however this is impossible to quantify accurately at this time.
 - In relation to mall gift cards, it is worth noting that approximately 30% of GDV in the Gift & Incentive segment is generated in the last six weeks of the calendar year as this is a seasonal product. On that basis, the financial impact is dependent upon the extent to which Covid-19 has an ongoing impact on shopping malls toward the end of CY20.
 - We expect trading conditions in our gift card mall programs to be challenging for the foreseeable future.
 - EML has been investing in EML Connect, a software platform enabling our mall customers to further extend their sales reach beyond the physical mall property and into online, digital and B2B sales, with key mall partners expected to launch in the next six months.

USA	Canada	Italy	Germany	UK	ROW
c. 50% of malls reopened by June	c. 45% of malls reopened by June	Majority expected to reopen by June	c. 60% of malls reopened by June	Timing remains uncertain	Variable global conditions

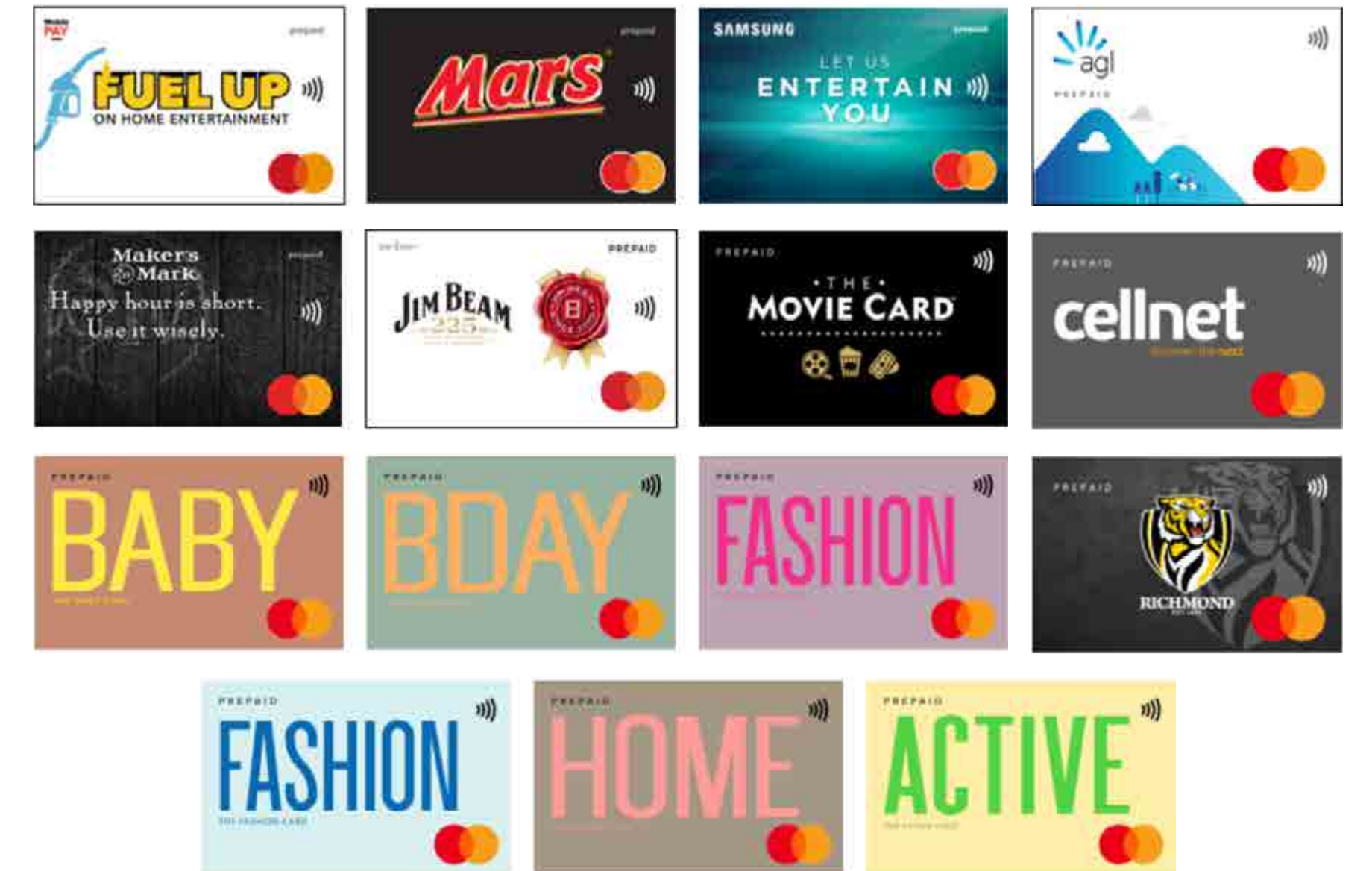
Timing of mall reopening is subject to rapidly evolving conditions and the above is based on the best information available at the time of publication but is subject to change.



Gift & Incentive

Incentive Programs

- As GDV in mall gift cards has decreased, we are seeing increased traction in incentive gift card programs using our PAYS technology.
- Malls represent a minority of gift cards sold in most countries. For example, in 2018 the UK mall gift card GDV was estimated at GBP 120M versus an overall UK gift card GDV of GBP 6 billion (Source: UK Gift Card and Voucher Association).
- We expect incentive programs to generate incremental growth to replace lower volumes from the malls vertical and become a more significant part of our Gift & Incentive segment.
- Our innovative PAYS technology, where a digital gift card is delivered directly to a mobile device, is a competitive advantage as we look to sign and launch new incentive programs. We have used our PAYS solution to launch multiple programs for FMCG companies including those below.
- We have also signed multiple new contracts with companies in the marketing and incentive space, including Vault (AU), epay (USA), Incomm (EU), Virtual Commerce (USA), BFM Group (USA) and Clevergift (EU):



Use of our solutions during Covid-19

We are pleased to see that our solutions have been used to benefit communities in multiple countries. These include:



United Way (USA):

Use of PAYS solution to send a funded and instantly available GPR card for purchases of basic necessities by families and individuals in need. This program went from inquiry to launch in 7 days and has since been expanded to multiple states.



Epipoli (Italy):

Use of gift cards to support those who are financial insecure to purchase essential items in certain stores e.g. food shops, pharmacies, department stores. The cards will be targeted to those determined most in need of financial assistance during the COVID-19 crisis. Providing Italian Government emergency disbursement funds to Italian citizens and residents. Value Prop: Prepaid Physical Mastercard, acceptable instore and online as a payment solution.



PFS (UK):

Several local market authorities have requested GPR cards to support funding for vulnerable citizens including mental illness and domestic violence programs. PFS is Live with 'Emergency Cards'. The setup has been put in place to create product lines which allow contactless usage on the first transaction with the NHS, Credit Unions, Local Authorities and other emergency care recipients in mind.



Nepo (UK):

Promoting EML as a supplier for emergency funds, including support for domestic violence victims. PFS are a preferred government supplier of the Crown Commercial Service and NEPO and can therefore provide councils with easy access to prepaid services and emergency cards under the government framework and commercial pricing structure by setting up tailored PFS functionality and creating specific Distributor Codes.

We have been able to assist governments, non-government agencies and charities with rapid relief services during COVID-19 to ensure the vulnerable can access money easily through prepaid when they need it the most.

Governments and agencies we have signed in this May period to provide prepaid emergency cards to the vulnerable include:

Hartlepool Council, Pembrokeshire Council, Wigan Council, Liverpool Council, Tower Hamlets Council, St Helens Council, NHS Black Country Healthcare (prepaid cards to Ward sisters to care for the mentally ill), Southall Black Sisters (prepaid emergency cards to Domestic Violence victims)



Exclusive provision of emergency funding cards to NHS volunteers assisting clinically vulnerable people.

**PFS ARE THE ONLY
PREPAID UK ISSUER SELECTED**

New Zealand

EML has partnered with Mastercard to be an issuer in the New Zealand market with the first program to launch in July 2020.



**WE NOW OPERATE
IN 28 COUNTRIES**

Presend Contingent Consideration

- EML acquired Presend Nordic AB (now EML Nordics AB) in February 2018 to expand our geographic reach into the Nordic and Baltic regions in Europe. The acquisition represented an upfront cash purchase price of SEK 10M (A\$1.6M) and a two-year earn out capped at SEK 60M (A\$9.4M) payable in shares.
- Earn-out conditions were met in full with the acquisition multiple of 16.6x (2018) now approximately 5.7x reflecting the successful integration, insourcing of key operating activities such as processing and growth through customer and product expansion.
- The group will issue 4,869,322 shares in May in satisfaction of the full contingent consideration of SEK 60M at the agreed EML share price of \$1-944 and an SEK:AUD fx rate of approximately 6.34.

EML's Chairman, Peter Martin, commented: We are delighted with the performance of the EML Nordics business since our acquisition in February 2018. We acquired the business via a relatively modest upfront cash payment, but an earn out that provided a real incentive for the previous owners to drive its growth. The business has delivered beyond even those levels, and I congratulate all of our EML Nordics team for that success.

Director Share Sales

- EML advises that the Chairman, Peter Martin, intends to sell between 300,000 and 400,000 shares, representing a small portion of his total shareholding in EML, at some time within the days or weeks following release of today's trading update.
- Mr Martin is a long-term investor in EML, having acquired his initial stake in 2012. Mr Martin now holds 7,718,992 fully paid ordinary shares. This included Mr Martin's participation in last year's entitlement offer.
- Mr Martin will turn 70 years of age in September 2020 and his EML shareholding is a significant part of family investments. Mr Martin expects to remain a substantial shareholder of EML for years to come, however given his stage of life, family and other needs, he is likely to sell some shares each year. All such sales will take place in conformance with EML's published Trading Policy.
- Investors should also refer to the ASX Announcement: EML Chairman - Share Sale, dated 20 May 2020



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Disclaimer

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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 across 28 countries in North America, Europe and Australia.

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

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