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24 February 2021

ASX Market Announcements
20 Bridge Street
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Investor Presentation - Transcript

EML Payments Limited (ASX: EML) is pleased provide investors with the following transcript of its briefing to shareholders and the investment community held on 17 February 2021 following the announcement of its FY21 Interim Financial Results.

About EML Payments Limited

At EML we develop tailored payment solutions for brands to make their customers lives simpler. Through next-generation technology, our portfolio of payment solutions offers innovative options for disbursement payout's, gifts, incentives and rewards. We're proud to power many of the world's top brands and expect to process over $18 billion in GDV in FY21 across 28 countries in Australia, Europe and North America. Our payment solutions in 27 currencies are safe and secure, easy and flexible, providing customers with their money in real-time. We know payments are complex, that's why we've made the process simple, smart and straightforward, for everyone.

We encourage you to learn more about EML Payments Limited, by visiting: EMLpayments.com

This ASX announcement has been authorised for release by the Company Secretary, Sonya Tissera - Isaacs. For further information, please contact:

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Company: EML Payments
Title: EML Payments H1 Results Briefing
Date: 17 February 2021
Time: 9:00AM AEDT

Start of Transcript

Operator: Thank you for standing by and welcome to the EML Payments Limited H1 Results briefing conference call. All participants are in a listen only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Tom Cregan, Managing Director and Group CEO. Please go ahead.

Tom Cregan: Thank you very much. Good morning and welcome to the EML Payments earnings call for the first half of the 2021 financial year. My name is Tom Cregan, Managing Director and Group Chief Executive Officer. I'm joined today by Rob Shore, our Group Chief Financial Officer and we'll take your through our financial results in the half, a general business update and our financial guidance, which we are reinstituting.

Given we're still in lock down in Melbourne here, albeit for one more day let's hope we get through the next hour without my neighbour deciding to mow his lawn, my dog going off on a tirade or the local rubbish collection guy picking the bins up, which he's just about to start doing. So let's get into that and see how we go.

As investors are aware we removed our guidance at April of the 2020 financial year due to some immediate and some unknown impacts of COVID on our business and we wanted to get through the 2020 holiday season and assess particularly the gift and incentive segment to determine how that would impact 2021 EBITDA before commencing formal guidance.

Having now got to this position, we feel comfortable in putting a guidance range back in place for the financial year. As those who follow the Company know we've had a long-term strategy of diversification across multiple levels and a clear strategy of transitioning the company away from a reliance on gift card revenues into one that derives the majority of its revenues from GPR programs.

And in the first half of the FY20, if we go back in time, we derived approximately 70% of revenues from the G&I segment and in the first half of FY21, we now see GPR revenues accounting for 57% of Group revenues. Breakage on gift cards now accounts for something like 16% of revenues versus 40% in past results.

This repositioning has really helped the Company manage through the challenges that COVID has presented us with thus far. Obviously the most notable of those challenges was the impact of lockdowns and curfews in Europe and Canada with most malls closed from the middle of December onwards, in line with stage 4 and 5 restrictions. Those that did remain open did so on significantly reduced hours.

Despite that, our diversification I think has continued to pay off with record first half EBITDA of $28.1 million, an increase of 42% on the prior comparative period. Had we not seen more closures in December than we did arguably our result would have been significantly north of $28 million of EBITDA given unit sales were actually running 6% higher in December prior to those lockdowns occurring.

GDV in the mall segment was down $100 million against the prior comparative period but offset by higher breakage rates which minimise the gross profit impact of that volume decline and growth in our incentive programs overall. So despite the moving parts within the gift segment, the segment was only down $3.4 million in gross profit on the prior comparative period, which I think was a great result.

I hope you agree with me that this result demonstrates a key point and that is that we are no longer in inverted commas, “a malls gift card company”, and while we want to be successful in all of those verticals that we operate in, the malls vertical and that seasonality at the end of December is now the difference between a very good result and a great result, as opposed to being fundamental to the result itself.

Despite current lockdowns and curfews still in place in Canada, Italy, the UK, France, Spain, Belgium, we could go on, we are guiding to a fully year EBITDA result of between $50 million to $54 million, basically at the midpoint of analyst consensus, which ranges from $48 million to $57 million.

We'll obviously be steering towards the top end of that range and we'll tighten that range as we get later into the financial year. If we can weather the COVID challenges and perform as we have in the first half and deliver on our full year guidance then I'm genuinely excited to see what FY22 and beyond holds as economic growth rebounds in North America and Europe and these economies and markets reopen.

In addition to our financial results we’ve continued to grow the business with the addition of new programs in all regions and have set the foundations for Project Accelerator which is focused really on our transition to a platform as a service broader digital payments business.

This is obviously a summary of that strategy, but we will be investing in our technology and our infrastructure to support a single touchpoint integration as well as enhancing our sandbox capabilities and scheme agnostics. So offering the same solutions across both scheme networks, Mastercard, Visa and others.

We’ll definitely become product centric, partnering with other companies and integrating their solutions into our own providing additional functionality and value to our customers and to their cardholders. We will look to invest in technology companies that can enhance our own solutions and expand the ecosystem of opportunities to flow from that, known internally for us as FinLabs.

In the first half of the financial year we spent a lot of time on system design and project design and we're now in build mode on several fronts.

Commencing on page 3 of the deck, investors would be well aware of our mission statement and our vision statement and purpose statement, which we launched late last year. We'll be providing a more detailed update on Accelerator in the full year results but I will talk about our FinLabs investments later on this morning and hopefully you'll see how they fit into that vision and purpose statement.

Moving to slide 4 and the main call out here is that we are becoming a larger business with 486 team members as of the half year and we have continued to add to the team in the first half. We added approximately 36 employees in the first half, really as a response to the level of new business opportunities that we're seeing and projects associated with Accelerator.

We would expect to add another 10 to 15 employees by the end of the full year. We've never been a company that wanted to win what I call the head count stakes. That’s never really had much appeal to me, but we do outline later in the deck that we’ve signed 69 contracts in the first half. We launched 64 programs and expanded our sales pipeline in the process.

So to not be investing now would be the epitome of being penny wise and pound foolish if we want to continue to grow at a similar pace in future years.

Rob will talk to our expense base, but we'd previously guided last year for $66 million to $72 million, and that difference of $6 million was basically our short-term incentive plan and whether that would be achieved or not achieved. As you'll see later in the deck, we spent $39 million in the first half and while some of those costs are decidedly first half in nature, such as EMLCON and insurance and so on, we'd expect this level of expense to repeat in the second half, given it's largely headcount related to sales supporting our expanding business, particularly in operations and onboarding, and to various projects and Accelerator initiatives. We've guided for $76 million to $80 million for the full year and the midpoint I think is where we're likely to end up.

Moving on to slide 5 and in our opinion, we've had a strong start to FY21. Group GDV increased by 54% to $10.2 billion. Group revenue increased by 61% to $95.3 million. As previously mentioned, EBITDA increase by 42% to $28.1 million. Operating cashflow was $34.8 million, which is four times higher than the prior comparative period and 124% of EBITDA as a result of a couple of things.

Number (1), our transition to GPR revenue, to a GPR business where cashflows are going to be more in time with revenues. Cash conversion on breakage funds and a really great effort by a finance team to manage receivables and ensure that we're treating our cash with the importance that we should be treating it with. Those three initiatives I think had a great result on operating cash flows for the half.

That cash flow in turn allowed us to invest in those first two Accelerator initiatives which were worth a combined $9.8 million and end the half with a cash balance of $136.5 million, so 15% higher than what it was at the end of FY20.

That cash balance in turn provides the funding necessary for contingent earn out payments on historical acquisitions without the need to raise funds and to continue to look at FinLabs investments and potential acquisitions. So, we've got plenty of optionality there which shareholders should feel pretty good about.

I'm sure the M&A question will come up somewhere as it often does and last year I mentioned that I thought that we might be precluded from full scale M&A due to the logistics of travel and due diligence, but despite that we are really seeing an elevated level of M&A activity in the global payments industry. If anyone's following the level of deals in the industry, be they trade sales, mergers, back listings, and so forth, it's pretty evident that the market has found a way to continue to drive acquisitive growth and it will continue to be part of our focus in 2021.

Moving to slide 6 and our results by segment. The most notable result here is in our GPR segment, where revenue increased 314% to $54.4 million with PFS generating $38 million of that $41 million increase. So in percentage terms that also means that the historical EML GPR business also grew by 25% due to growth in salary packaging and gaming.

In relation to gaming just of interest for investors. Our exit run rate in the US is now about $200 million a year in GDV. So it's a positive result for the North American business and is a testament to the work that had been put into growing that market in years gone by.

It's within a bunch of brands that wouldn't be necessarily household names. They're not the FanDuel's. They're not the DraftKings. That number is the number. So that's a very positive thing for that market. It's a very significant transformation for EML because revenues in that - in our overall GPR segment will now be over $100 million for the first time, which is certainly a bell weather moment.

In fact, in the month of December alone, we processed $890 million in GDV in that segment, GPR gross margins declined slightly, but most investors understand that PFS outsources its transaction processing and pays for access to the UK faster payment network and therefore has lower gross margins than the pre-existing EML GPR business.

So that's the reason for the decline versus any pricing pressure or any other impacts. As we start to migrate those volumes to our own processor and we go live with faster payments as a direct member, then that GBP3.5 million pounds starts to decline and we'll see corresponding gross margin increases in that segment. That will obviously flow through to the Group gross profit margins and EBITDA margins.

In the Gift & Incentive segment, as I said before, GDV in the malls vertical declined by 19%, offset by growth in our incentives vertical of 11% and whilst incentive programs convert at a lower rate than malls, largely due to lower breakage, collectively they provide a larger opportunity for growth in the malls, than the malls vertical.

Within the Incentive segment, there are different yields for consumer incentive programs versus employee incentive programs with employee incentive programs converting at a lower rate because if you're given that by your employer and you're seeing that as de facto salary and therefore you're likely to try to use as much of that balance as you can.

In the first half, we did see a definite shift from consumer programs to employee incentive programs, which makes sense, given FMCG and other companies aren't investing in driving consumer demand for their programs when you've got lockdowns and curfews in place.

That would make no sense and employers were rewarding their staff financially just due to the challenges of that experience last year working under lockdown conditions, particularly in Europe. Partially offsetting lower volumes in the mall segment was an increase in cash breakage rates, which again is logical given people are visiting malls less.

We were asked about this last year on a number of calls. We said it was a trend that we were watching. We've been watching that trend carefully and working with our actuarial partners and banks and the data supported an increase in breakage of $5 million of upside, which obviously reduced the half year gross profit impact of lower volume, a great result in trying conditions and again, it just talks to that natural hedge that exists for us in this business.

We've got additional breakage funds to recognise in the second half as well, but as our cash flow would indicate there was a strong correlation between breakage accrual and cash conversion. We've mentioned numerous times over the years that breakage can be significant in an aggregate sum but is insignificant at a per card level.

Just out of interest for investors, with COVID impacting usage because you're seeing lower redemption, therefore higher breakage, as the issuer of these programs, we do allow cardholders to call us and push out the redemption period on their cards. That's something we're always willing to accept their calls on. The number of calls we've received due to COVID is completely diminimous relative to level of our card sales.

So we saw that again, we saw that 10 years ago in the GFC. We saw it double dip recessions in the UK. We're seeing it now with COVID and so that trend, I think just continues, but ultimately I think we'd expect that as we get to Christmas this year, and you've got progress with vaccines and the re-opening of these cities and economies we'll see a recovery of GDV in the mall segment, albeit with breakage rates that will probably revert back to historical levels.

The VAN segment was pretty much a steady state story. We had GDV growth of 6%. We onboarded two new clients in the half and expect to see more output from them in the next 12 months, as well as onboard additional clients in this current half. But really the focus for us in the first half of this year was the integration of PFS. So we need to keep focused on the VAN segment for the reasons that we've mentioned previously.

We won't spend time on slide 8, but it details our track record of growth over the last five years. Just for a change we're showing the monthly GDV in each segment that we thought investors would find interesting just on a month to month trend basis.

But the next few slides call out the movement in that Gift & Incentive segment, which I've spoken about before but again, just more information. As we've discussed the malls segment saw a GDV decline of 19%, which only translated into a gross profit decline of $3.4 million.

In the current quarter we would expect volumes to still be heavily impacted in that segment, given restrictions and curfews are in place still in all those places, and volumes in January were down in the order of 50% on the PCP and similar trends in the first half of February.

The quarter is not a key quarter for gift card sales, but nonetheless plays into our EBITDA guidance for '21 given it makes sense to be conservative with guidance. A flipside to that and the positive side, again referring back to GPR is that you can see the monthly volumes there for GPR and in the month of December PFS just as a standalone business was slightly over GBP300 million pounds.

In February, a 28 day month obviously, but if February was your standard 30 day month we'd be over GBP300 million again for this month. So the GPR segment is proving very resilient across the board, but also in Europe, despite those kinds of conditions that we find ourselves in.

In Australia where we weren't subject to mass lockdowns, companies did run more consumer incentive programs. We actually ran 150 digital programs using our PAYS technology. So that demonstrates the trend we're seeing of incentive programs moving from physical to digital and some in industries that we wouldn't have been able to support a physical card program. So positive to see and hopefully we see that in the other regions.

We continue to sign new distribution partners, some of which were at the bottom, some are live, some will launch in the coming months and that's just key to continuing to grow the number of programs that we run.

On the next two slides, before I hand off to Rob, there were several operational highlights that were worth noting. I mentioned the business development front earlier in terms of 79 contracts and 64 programs. Our sales pipeline expanded and our win rate for new business was 39%.

So we were asked that by investors last year and we said we would commit to providing some information on that and that's the first time we've really looked at that number. So we'll continue to measure that in future periods, but in a competitive global prepaid market winning four out of 10 we think is a pretty good win rate.

Obviously we would be hoping that the initiatives related to Accelerator and other things can increase that win rate going forward. It's also worth noting that when we talk about a pipeline of 408 prospects, the future GDV is maturity that we believe we will see from this pipeline translates back to the programs we believe we will win.

So we're not taking a number of $8 billion that we believe is the maturity on the current pipeline in three to four years on the assumption we're going to win 408 prospects. It's on the assumption that we're going to win what our current close rate is.

Moving on; we launched a payout program for Paddy Power in Ireland and converted existing cards in market that were managed by a competitor. That migration was completed in December fully-so it's been fully active now for several weeks and that will certainly be a positive for our gaming segment in the second half and beyond.

In PFS, the PFS EML business has been given the green light to become a direct member of Faster Payments in the UK and that should be fully implemented by the end of the financial year resulting in savings of approximately GBP480,000. That was one of the main synergy projects when we acquired PFS and it will be a positive to head into FY22 with those savings hitting the bottom line.

Also in the UK, we've gone live with Phase 1 of a program for the Home Office and expect this to be fully implemented by the end of the financial year as well, which gives us a good lead into FY22. In the Salary Packaging vertical we continued the transition of accounts with Smartgroup and we ended the quarter with 282,000 accounts, now 286,000 accounts. We expect to hit 300,000 accounts in financial Q4 of this year.

In the Neo Lending vertical we continue to add new partners including Laybuy Australia and Fu and others. But I think it's worth noting that because those companies are early stage businesses, it's worth noting that when we launched MoneyMe a year or so ago - I think it's now 15 months - the cumulative GDV for that program now stands at $23 million.

That’s a number that MoneyMe is comfortable with me sharing otherwise we don't normally share customer data. So that goes back to the cohort analysis that we took investors through last year and how GDV starts from a low base on some of these programs that we're adding and then builds over time. That's the kind of compound growth factor that benefits us in the business.

In the government sector we actually ended the half with 561 active programs, which I think talks largely to the presence we’ve got in the UK, but also in some other European countries. We're seeing local councils and other governments expand the number of programs they run due to COVID with funding for programs such as domestic violence, mental illness, welfare and so on.

I think as we come out of lockdown, we will see countries have formal tenders for stimulus programs that will be in the hundreds of millions of dollars. So similar to what the Australian government have done here with sector specific support I think we'll see that to a pretty significant degree across Europe as these economies reopen.

Locally we signed a deal with 8common that some people may know, another ASX listed business who are working to cross-sell our card program into their corporate expense programs that they manage for more than a hundred government agencies, as well as working on additional opportunities, such as the NDIS.

We also announced the pilot with the New South Wales Department of Transport, along with MasterCard and the Commonwealth Bank to launch the pilot of the digital Opal Card which could be significant for us in future years, as well if that pilot moves into full launch mode. There's media coverage on that that investors can look at and keep abreast of.

Finally, just a short word on our first two FinLabs investments. We've completed the systems integrations for Interchecks. We’ve signed two contracts, actually, I think it could be three as of today. We've got 15 in the pipeline and the common theme is providing corporates with both card and non-card payout and pay-in options. So the ability to pay a customer in several ways.

So for example, one of those first contracted customers is in what we call the earned wage access base in North America, where companies are facilitating employees drawing down on their salaries flexibly during their pay cycle, as opposed to just on a due date.

Their customers might want to draw that partial salary down onto a card, into a bank account or a combination thereof, but they want one provider to support both solutions as opposed to having to use two suppliers. In a simple sense that’s what FinLabs is about and ties back to our vision of providing customers with a simple, single touchpoint as well as enhancing our product capabilities for scheme and non-scheme payments.

FinLabs allows us - looking at that investment FinLabs allows us to invest in a payment technology today versus build it and take two years to build it because it would be competing with other internal projects and we miss the boat in what is an increasingly fast paced industry.

Hydrogen is almost complete from a systems integration perspective with a likely launch in Q4, financial Q4 this year with revenue generation into FY22 which is in line with previous updates that we've given to the market and pleasingly they've had over 100 companies go through beta testing to integrate onto that platform.

So again, it should provide us with just an additional lever for growth in the years to come. And with that, Rob I'll hand over to you for the rest of the presentation.

Rob Shore: Thanks Tom and good morning, everyone. I'm going to take you through the financial results review, starting on slide 14 of the pack.

In summary, I mean the first six months of the FY21 financial year have delivered a really strong set of results, and it’s a record start in all key measures, including gross debit volumes, $10.2 billion. That's up 54% on last year. Revenue is $95.3 million. That's up 61% on last year. EBITDA, $28.1 million, up 42%. NPATA, $13.2 million, up 30%. So it's a really strong set of P&L measures, but also pleasingly really strong cash flow measures underlying cash inflows of $35.1 million at the operating level or 125% conversion of EBITDA. So definitely a strong start to the FY21 year.

Putting that in context, these six months results are pretty close or ahead of what we delivered in the full 12 months of FY19. So strong growth in that 18 month period despite challenging trading conditions in many of our key markets as Tom's highlighted earlier.

PFS, which we acquired 1 April 2020, was consolidated into the financial results for the full six months of the current period. Looking at slide 15 now Group GDV, there are some key takeaways to highlight on that page. We forecast this a number of times previously, but to drill it home again the General Purpose Reloadable segment is our largest segment in terms of gross debit volume. It’s the largest segment in terms of revenue and gross profit and it's our fastest growing segment, both acquisitive growth and organic growth, which is a really good story.

PFS, looking firstly at PFS, it performed well in most of their key verticals, particularly in the digital banking in the UK government verticals. And they're continuing to launch new programs and we definitely see strong periods of growth to come from this business.

Organic growth in the non-PFS remainder of the GPR segment was also strong. It had growth of over 20% over the PCP. The transition of salary packaging programs in Australia is nearing completion. We've got over 282,000 accounts live at the end of December and the growth in this vertical in the first six months of the year is going to annualise through into the second half and into future periods.

Gaming disbursements also grew strongly domestically in Australia and overseas, particularly with the launch of a poker winnings disbursement program in the US and the program with Paddy Power in Europe in December 2020. So they will both benefit the second half in full.

In the gift incentive segment we saw reduced volumes in the malls. They were down about 19% due to global closures, social distancing, lockdowns in various key markets during the period. It's impossible to accurately quantify the impact of COVID on the segment, but we estimate it would certainly be more than $100 million dollars of GDV which is - it's impactful. It's significantly impactful, but it's definitely better than we were seeing at the start at the pandemic.

Trading conditions though did deteriorate in early to mid-December as Canadian and European lockdowns became more severe and we continue to see significant impact on the segment volumes in January 21. We're forecasting to start to see improvements in quarter four of this year. So whilst we saw mallvolumes impacted, we did see growth in incentives or non-mall programs. They’re up 11% with new programs launching, taking advantage of our digital solutions for employee engagement, customer engagement marketing programs and the like.

In the VANs segment it was relatively flat volumes, ended the six months with a December run-rate of $815 million of monthly GDV, gives us some optimism for the remainder of FY21, and we're equally optimistic about stronger growth, given our sales pipeline in this segment.

Looking at Slide 16, the six months delivered record revenues – were up 61% to $95.3 million. The majority of our revenues are generated from recurring revenue streams in the GPR segment. The GPR segment accounts for about 57% of Group revenues in the period. Growth in the GPR segment was both acquisitive and organic. And so PFS contributed about $38 million with broad growth across their business and their verticals they operate in. The remainder of the GPR segment contributed about $16.5 million of revenue and revenue grew 25% on the prior comparative period.

Organic growth, as I said before, was sourced from Australian payroll, salary packaging programs where we're approaching annualised volumes of $2.5 billion a year, and global gaming disbursements where we exit December with an annualised run-rate approximating $1 billion.

Revenue yield in the GPR segment was consistent with the prior quarterly yields for the last two or three quarters of about 112 basis points. The Gift and Incentive segment contributed 37% to group revenues, and in the six months to 31 December we made about 16% of Group revenues from breakage, so that's significantly down on any of the prior periods. And it will continue to fall, this percentage of Group revenue, through to the full-year results.

We flagged previously that we've spent a significant amount of time evaluating with our third party statisticians in North American sponsor banks, evidence of low redemptions on mall programs. So this is likely due to lockdown and social distancing, reducing foot traffic in the malls, and consequently reducing card spend over a 12 to 18 month period post activation of the card through the pandemic.

This is translating into higher breakage rates. We've taken a conservative approach and we've only adjusted for cards issued earlier than the 1st of December 2019. So where we've got more than 12 months of data that has elapsed since the card was loaded, and that gives us a high degree of confidence in the data. We expect to do more work on this through the second half, and we expect to see further upside in the second half.

The overall revenue yield for the Gift and Incentive segment was ahead of expectations at 467 basis points, due the adjustment above to breakage rates which has started to convert to cash in February 2021 and will be received into cash in full by 30 June 2021.

The VANs segment stabilised back to a run-rate exceeding $800 million in December, a consistent revenue yield of 13 basis points. Central Bank interest rates on our cardholder flows have been a headwind across all the segments when we've seen low interest rates throughout the period and negative interest rates in the Eurozone. We incurred net negative interest rates on our European liquid float balance, so that's the amount not invested. That cost is an expense of approximately $500,000 in the first half.

The Global Treasury Team works very hard to minimise the impact through term deposits or Government-backed Bond investments, but it is a cost, and we remain cautious about the risk of further drops in Central Bank interest rates, particularly in the UK and the Eurozone. A total float is approximately $1.8/$1.9 billion dollars worldwide and should we see rising interest rates in future years, we would be a beneficiary of that.

Moving to Slide 17. At a headline level, gross profit rose to $67.3 million, slightly lower margins of 71% due to a segment mix towards GPR and the dilutive impact of consolidating PFS. PFS outsources payment processing and it's faster payment connections, resulting in lower gross profit margins for that business. These were two synergies that we identified in the acquisition thesis, and we're on track to bring a direct connection to faster payments online by June 2021, and they'll deliver a savings of approximately GBP0.5 million in FY22. The project to bring processing in-house remains on track, and there's a target completion date by the end of FY23.

We continue to regard cash overheads as a percentage of revenue as a key metric of operating performance and we ran up 41% of revenue, which was down slightly from 42% in the prior comparative period. The majority of the increase over PCP, about 90% of it relates to the acquisition of PFS being consolidated for the full six month period. Employment related expenses make up 69% of the Group cash overheads, and that's really reflective of the nature of our business. The employment costs, as potential revenue, remained consistent despite increasing the calls for cash-based short-term incentive plan expenses to reflect a likely maximum achievement for several of our businesses in the FY21 year.

So we're running ahead of our expectations for overheads, running above our expectations in the half year. There's a few reasons; firstly the higher STIP accruals because the business performance has been strong. Secondly, we capitalised internal development time, capitalised less internal development time at $4.8 million than we expected. The $4.8 million replaced the depreciation amortization charge of $4.6 million in the period, so excluding the acquired assets that we were amortising because we really spent more time on maintenance activities, and maintenance activities and replacement activities are expensed rather than new functionality which is capitalised. But as accelerated projects move from design into the build phase in the second half, we expect this capitalisation rate to increase.

We also, thirdly, chose to exceed the overheads target, given the business performing well and there's a strong level of new contract signings and a strong pipeline, so it's important to continue to invest in roles that drive growth, such as customer onboarding, product, and IT teams. The increased spend has been directed to high growth areas, including PFS as we're integrating that business into EML. As a result, our cash overhead guidance for the full year moves up to $76 million to $80 million.

On Slide 18, the outcome of this is an EBITDA of $28.1 million for the six months to 31 December. This continues our track record of growth which is now a five-year CAGR of 56%. On Slide 18 we're reconciling between EBITDA and NPATA and there's a couple of highlights to call out. Depreciation and amortisation of $13.9 million at the statutory level, 67% of that relates to amortisation of acquired intangibles – so that fair value uplift that we do when we buy a business. The BAU element of that is $4.6 million, which is included in the NPATA measure, so you'll see that on the bridge. Share-based payments relate to Executive STIP and senior leadership LTIP, and they're included in the NPATA number. Other expenses is mostly foreign exchange on translation of foreign currency balance sheet items.

Then the next one is we incurred an expense of $24.9 million which is mostly in relation to bringing up the contingent consideration payable for the acquisition of PFS to our current estimates of their trading performance. So we made an estimate of contingent consideration payable when we made the acquisition in end of March 2020 and all the forecasts were conservative at that time including the vendor forecasts.

So don't forget the vendors at the time had just accepted a price reduction of more than $180 million. Since March 2020, we've seen a rapid recovery and improvement in trading in that business. This has been particularly evident in the six months we're reviewing now. So we're now forecasting that PFS will achieve their maximum earn-out over the three year assessment period. So now we're at the maximum, there's going to be no further expense to be booked in future periods, and the first payment will fall due based on actual results to 30 June 2021 – that will fall due in August 2021. So, it does impact the statutory NPATA number, but it very much relates to the acquisition of PFS, and so it's excluded from the NPATA and EBITDA numbers.

Looking at the balance sheet on Slide 19, the first callout is that we've split out cardholder assets of $1.63 billion, and liability load to cardholders of the same amount. These are the amounts held on behalf of our customers and cardholders and a direct offset by the liabilities to those same cardholders. So we will concentrate on the corporate balance sheet column. The Group's sitting on a surplus cash of $136.5 million with no secured debt. Our businesses are cash generative, which I'll discuss in more detail on the next slide, and we're also holding a contract asset or breakage accrual asset of $29.1 million, of which $18.4 million is expected to convert to cash over the next 12 months.

The Group's funded a premium on purchasing bond investments – these are what the European Regulator deems as zero risks, so they're very low risk government-backed assets, where we invest cardholder funds, but the Group receives the economic returns. We have a policy of not actively trading the bonds and holding them to maturity; this is more than $6.5 million of Group cash which we'll convert back to cash in future periods. The Bonds are an important part of our Treasury policy to offset extremely low or negative Central Bank interest rates on the cardholder float. So, in terms of the funding, it's $136 million of cash, $29.1 million of breakage, and a Bond premium of $6.5 million.

Moving onto the cash flow on Slide 20, the business continued to generate a significant amount of operating cash inflows with a new record cash inflow of $35.1 million which is 125% of EBITDA. We've previously forecasted that cash conversion would be more than EBITDA, it's due to the timing of breakage converting into cash. So, we've converted more into cash than we accrued in the period from July to December, alongside a strong focus on improving working capital by the finance team. We expect strong cash inflow performance to continue through FY21, although as Gift and Incentive volumes improve in Quarter 4 and beyond into FY22, we would expect to accrue more breakage and therefore we'd expect to see a working capital re-investment at that time.

We continue to invest in internally-generated software development, capitalised $4.8 million of CapEx related to building the technology that's going to drive the Group's growth in future periods. As Tom mentioned earlier, investors should expect this to increase in the second half as Accelerator projects move from the design phase into the build phase. We've made two FinLab investments in Interchecks and Hydrogen and that totals $9.8 million in the period.

Moving onto Slide 22 and looking at our guidance for the full year 2021. There's still a number of moving parts, and these will firm up as we get further into Half 2 and so that's driving the fact that we're giving a range, and we're expecting a guidance range of $50 million to $54 million at the EBITDA level. The most material impact that's driving the forecast range is really the European, UK and Canadian lockdowns, and the timing of when we'll see these ease and trading conditions improve. Business performed well with less harsh lockdown conditions into the July to October period last year and early November, so we do expect to see a rapid recovery once the conditions improve. We've assumed that we'll see tough conditions continue through to March, the end of March, and we'll see improvements through Quarter 4.

We will recognise $3.8 million of breakage and that's in the second half, and that's carried over from first half Gift and Incentive activation. It's down on the prior comparative periods where we carried over $6.8 million, and that's due to lower unit sales in the first half and particularly the timing of weaker sales in the immediate weeks running into Christmas in that December period as well. Foreign exchange currency rates and interest rates are outside of our control. Our guidance is based on no material changes to the rates that we saw in force at 31 December. Operating cash flows are expected to continue to be strong for the second half and will be around 90% to 110% of EBITDA for the full year, we think. So that's our guidance numbers for FY21.

With that Operator, I'll open the line up to any questions for Tom and I.

Operator: Thank you. If you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question. Your first question comes from Garry Sherriff of RBC; please go ahead.

Garry Sherriff: (RBC, Analyst) Yes, hi Tom and Rob, just a few questions. Firstly, looking at GPR you guys said you had really strong growth and salary packaging up 60% and Gaming up over 40%. But the PCP growth was 25%, so I'm just trying to figure out what segments might have dragged down that overall growth rate?

Rob Shore: I think when you – I'm not entirely sure where you see the 60 and 40, I think the overall for the revenue was up 25% and you've got the mix between different programs. There's a lot of different moving parts, but the salary packaging is probably the big piece. The growth in the accounts from 30 June to 31 December isn't sort of a straight light between the two. So that's really going to – that $282,000 that we finished 31 December with is what's going to annualise through the second half. I don't know whether that answers your question.

Garry Sherriff: (RBC, Analyst) Yes, sorry my mistake. The guidance that you guys were looking at in terms of what you're talking about in lockdowns in April, does that mean we should be assuming a similar level of restrictions as the US or are we talking pre-COVID type lockdown or no lockdown I guess. I'm just trying to get a sense on certainly the next couple of months are looking tough, or you're assuming that, but when you talk about post-that, what are you assuming?

Tom Cregan: Want me to take that Rob?

Rob Shore: Yes sure.

Tom Cregan: I mean I think in kind of simple terms, if you look at the Q1 result of this year, which was I guess the first quarter coming out of COVID, I guess Q4 of FY20 was the one that was most impactful within that Gift business. Our Q4, our Q1 EBITDA number was $10 million and so obviously you could then spend $18 million in the second half. So I think it's a fairly safe assumption to think that this quarter and the next quarter with growth in GPR, it's kind of higher than what it was back in that same quarter, means that it's a fairly good bet to say that each of the next two quarters would be $10 million each or thereabouts in EBITDA plus growth. So the $50 million is a conservative number. I mean we've got to give ourselves a range because as we understand you miss the number, you get hung, so there's no point for bravery when it comes to guidance.

But we'll be steering towards that $54 million range and I think we've got the benefit, if you like you've almost got the benefit of being at $28.1 million plus the $3.5 million of AASB, so in an accounting sense you couldn't look at it this way, but you're effectively at $31.5 million really. So, two quarters similar to the first quarter that we're in this year, but again wouldn't have had any of that AASB carryover, kind of gets you to that $52 million range and then it's a question of getting it up above that.

Garry Sherriff: (RBC, Analyst) Yes, that's clear, thanks Tom. The last question, thank your for providing the Win rate at 39%; how does that look historically? Is that in line, or is that lower, or is that higher than your historical win-rates, if you've got that information?

Tom Cregan: Actually, we've never looked at it Garry, this is the first time we've looked at it, which might come as a surprise to investors. But we invested in HubSpot last year, so we integrated that to enable us to have greater granularity on the deals in the pipeline and then you can post-audit after the fact, how did they perform relative to the forecasts that were put in there during the period. It helps us look at how quickly these programs have been closed, how quickly they're being implemented. So that took us six months to implement in the first half; I'm not sure we really had that number until now. So, in the past we've just been focused on, I think, winning the more material deals, because there's two parts to that win-rate. I mean it's an interesting number, and I don't really have anything to go on other than the fact that to me it sounds intuitively good to be winning 40% of deals globally across countries where we have multiple competitors. So, I think it's a very positive number.

Can it get better with Project Accelerator? You'd like to think so because that would be why we'd be investing in that in the first place. But there can be some false economics too, because if you're winning – like of 408 deals in the pipeline, I know of 10 say, that are in that pipeline that we would consider fairly – we're in the real running to win. And those 10 are probably worth $20 million to $30 million in revenues, right. So, they're not all created equal. So you could win 70% of deals, but if those 70% of deals were small fintech start-up businesses, then it's a great number but it's not really going to translate to the bottom line. So there's a balance there of – you've got to have a good win-rate but you've got to win the ones that matter. The deal that could be brought on that could be a million, two, three, four in revenue as opposed to just winning every deal. Because – you know what I mean – I hope I'm explaining that right.

Garry Sherriff: (RBC, Analyst) Yes, no, that's fine – that's fine Tom, thank you. Sorry, just going back to that first question, so I'm looking on [Page 5] of your segment performance and that's where I'm seeing the salary packaging revenue up 60% PCP and Gaming revenue up 42% PCP. I think you had mentioned that the non-PFS had grown 25% PCP. So again,I'm just trying to figure out there must be other segments I guess which are dragging down the non-PFS segment.

Rob Shore: Yes, I mean really comparing those individual segments against each other, right, so it's the relative performance of those programs against themselves. Then in the rest of GPR you've got a whole bunch of programs, everything from the LuluRoe program through to the CabCharge type programs, there's a whole raft and variety of other different programs around the world doing different things. And so that's kind of where you're looking at the individual segments. So I mean there's always ups and downs, and that's why we try and say look at the segment as a whole rather than trying to drill it into individual pieces and going down into 50 different parts because it doesn't really add a lot of value.

Garry Sherriff: (RBC, Analyst) Yes, understood, Rob.

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Garry Sherriff: (RBC, Analyst) …it's a good result – I'm nit-picking.

Rob Shore: Yes, there's programs going up and down all the time, and it's just the nature of the industry, like our customers' success, and some are going to be more successful in different periods and we don't really control that, and so that's why we just think it's better to look at the overall picture – just it's cleaner and easier.

Garry Sherriff: (RBC, Analyst) Got you, yes, a great result; I'll step back in the queue, thank you.

Rob Shore: Thanks Garry.

Operator: Your next question comes from Steven Kwok with KBW; please go ahead.

Steven Kwok: (KBW, Analyst) Morning, thanks for taking my questions; the guidance is very helpful, thank you. Just my first question is just around the M&A pipeline, given you have a substantial amount of cash on hand; can you just talk about the pipeline, like what verticals or geographies you are currently looking at, thanks?

Tom Cregan: Yes, I can do. I mean in terms of geographies at the moment, largely North America and Europe because we have – we've beefed up our executive team over the years by design, and so in North America there aren't lockdowns so people can travel for work. And without being flippant about it, I mean our head office is Kansas City, but your chance of getting COVID in Kansas City would be the same as you'd have of getting it in New York. So, people can travel for business and conduct on-site DD and spend time with companies that we're looking to acquire. I think the same was the case in Europe really until lockdowns middle of December, and I think once that eases then that will pick up again.

But the only real challenge is getting out of Australia to those countries. So, we, myself and Rob and my team that are here, have just got to rely on doing that more through online means because we're just precluded from physically going somewhere on DD. So geographically they're going to be the two main areas. From a product perspective, from an M&A perspective were at the moment not trying to buy scale for the sake of scale. So for example if there was a company that looked like us in the prepaid space in the US, and buying that business for the sake of scale would probably be a lower priority than focusing on our own organic growth. Or unless that company has significant growth of itself and then that would propel our earnings there.

One of the things we're looking at a lot is the FinLabs investments and those type of investments, technology companies that can add weight to our platform. We're doing a lot of work looking at companies in the kind of open banking space, because we think that that is just another evolution of payments, that in a way Interchecks – you wouldn't call Interchecks an open banking company because they're sending money to peoples' bank accounts through a Visa Direct or Mastercard Send, so they're still using schemes, but direct payments as opposed to card payments. We see that open banking piece as just the next iteration of payments and being able to facilitate payments to banki accounts, facilitate payments to cards. So, we're doing a lot of work – we've been looking in that space for quite a while. There are some unbelievable valuations in that space, so we've got to be pretty selective. But I think I could see that – rather than buying another PFS for example in the US, we'd be open to that if it came along, but rather than that, it would probably be something that added to our product capability, that in turn enabled us to have faster organic growth.

Steven Kwok: (KBW, Analyst) Got it. My follow-up question is just around like the customer base that you have. Like do you feel like with the pandemic has anything changed? You mentioned around the breakage rates and stuff like that; is there a chance that they could come back and then you could have to reverse the breakage or is that permanent going forward?

Tom Cregan: Yes, it's permanent. So once the cards expire and once the – I mean they've got expiration periods. So, in Australia it might be 12 months, in the US it could be three months, in Germany and markets like those it's three years because they're under different consumer protection laws. But once they're expired, they're expired. So, there's no out-of-period reversible – or anything like that that occurs with breakage. But breakages are – I mean I've always said for nine years, it's a good asset to have because – and you've got to be battle tested for this stuff. So, in the past, where we had accrual – we had unit volumes GDP going up and we had breakage accruals therefore going up in line with that as well. In the last – certainly in the last seven or eight months, we've had lower unit sales, but the cash conversion is from products you sold 12 months ago or 18 months ago. So that's why we've got really positive cash.

So that's the natural hedge within that Gift Card business, that I think come Christmas this year, as I said as economies re-open, you'll have higher unit sales volumes and then you're starting to rebuild that accrual base again. So, I don't really see – I mean in the 10 years I've been here, there's been no pattern, no change in breakage through all manner of economic cycles and downturns. So, we see that as just a fundamental part of the business, but clearly the PFS acquisition and our investment in technology was really pivoting to reloadable, because that's more in keeping with our vision around digital payments. So that's where most of the focus of the business will be in the years to come, for sure.

Steven Kwok: (KBW, Analyst) Great, thank you for taking my questions.

Tom Cregan: No problem.

Operator: Your next question comes from Elijah Mayr with CLSA; please go ahead.

Elijah Mayr: (CLSA, Analyst) Morning Tom and Rob, thanks for taking the question. Just wanted to drill into the OpEx a little more and just so I've got this right, so the OpEx number, and the overhead number being where it was, was more a result of just the employment costs associated with PFS being above expectations? Is that the right way to look at it?

Tom Cregan: No part of it was PFS, but mainly to be honest it comes back to just pure surprise around level of business activity in the first half. I think when we gave the – I think it would have been the full-year result I think when we were talking about here's where we see the cost base being. The $72 million would have been with full STIP budget, so that was the only item of difference between the $66 million and the $72 million. And when we started the year with a lot of – still with a lot of uncertainty I think around COVID and how that would impact trading conditions, then $66 million would have been the low end of that. If you'd budgeted for trading conditions being within budget, then $72 million would have been the cost base.

We've accelerated, I think we've added 35 heads in that half and about 18 of them are Accelerator related, if memory serves me – Rob might be correct me in a bit – the other 17 or 18 are a headcount supporting sales, incremental salespeople, banking operations team, onboarding because we've got to get these – I mean we can have a pipeline of 100/200/300/400 opportunities, but the rubber hits the road when these programs are actually launched. So, there's a resource – where there's a plug you don't want to have there because you want to be able to get programs to market as quickly as you can make it.

So largely head count, half of which would be accelerator and half of which would be Opex, largely related to driving growth. The others in my mind are swings and roundabouts, like insurance went up, but every company has swings and roundabouts on things like that, but mainly that was a – and you know, dare I say it, I was surprised on quite a few things on COVID and got quite a few assumptions wrong and I am glad to be getting this one wrong, because at the end of the day in order to grow at our current pace, if we weren't investing to bring that business on then I think we would be crazy. I mean if we really believed that – and we do – that our pipeline would translate into a win rate that would translate into $8 billion of GDV in three to four years for these programs at maturity, and you got 100% - 90%, 100% conversion rate and you got $80 million in three to four years of revenue growth, you would be nuts not to be resourcing that now to be able to get there.

So that is where it is heading.

Elijah Mayr: (CLSA, Analyst) Yes, and then I guess going forward, I guess looking forward to FY22 and onwards, is the employee base that you have now invested in, in place for the overheads, is that going to continue into FY22?, I am just thinking, like is that range meant to continue or should we expect those OpEx costs to increase in line with revenues, is there further investment to be going there and I guess just relating that to the PFS acquisition, if, as you continue to integrate that is there going to be costs stripped out that may sort of lower that number?

Tom Cregan: Yes, that is a good question. I mean I think the – so we will add another, you know, 10 to 15 kind of FTE by the end of the year, so we will not have the full impact of their costs in the second half because they will be added gradually through the second half. So, in effect I reckon we would start FY22 with circa 500, so those people would be on from there.

We haven't done a work through what our budget and our position would be for next year and what kind of head count we would want to look at to support the business. So most of what we have brought on I think is a view of being able to support what we are seeing now and not being caught short.

So, you know, I would be very surprised if, in fact I would be shocked if we added 50 more FTE in FY22. I think we are tooling up now to be able to bring on that level of volume and revenue, but there is a scale effect there, so I would be surprised if we see anything like that in '22.

Elijah Mayr: (CLSA, Analyst) Yes, and just relating to PFS, I think previously it was sort of said that you might be able to get up to sort of $3 million cost-out realised, is that largely realised or is that sort of, is there more benefit to be had as you integrate the business in terms of the OpEx base?

Tom Cregan: Well I think – yes, the OpEx base, I mean the – two points there. So of that $3.5 million synergy benefit, which is rough - call it AUD$6 million, you know AUD$1 million of that was the integration into faster payments and just getting rid of that cost immediately.

Our costs, for example, by using third parties to facilitate that, costs us about GBP0.20 a transaction, and as a direct member will cost us GBP0.02 a transaction. So there is the GBP480,000 that effectively disappears on 1 July. So there is AUD$1 million of that AUD$6 million that impacts the bottom line in FY22, and the rest of it is largely the conversion of programs from third party processors to our own, and the way that we will do that – I mean it has to be phased, because you can do it, you can what they call re-card someone. So if we have got millions of active card holders in the market, we could go and re-card everybody, but at an expense of – you can imagine two million pieces of, two million cards and it might cost you $10 million to go through that re-carding exercise, but it has significant risk, because if you get something wrong in that re-carding exercise you can lose customers and card holders. So typically you would just convert those cards over as they expire, which is exactly what we did here with salary packaging.

So we launched salary packaging with Heritage on the Visa network. We then converted it across to Mastercard where we are the issuer, but we did it over three years, just as the cards naturally expired. So there will be a million of the fix falls to the bottom line in FY22, I would say another million of the fix falls to the bottom line next year through processing savings, and I would say the other four of the six comes in FY22 – in FY23, because that is when the majority of the cards will have migrated from the third parties onto our own.

Elijah Mayr: (CLSA, Analyst) Excellent. Appreciate the detail and congrats on the results.

Tom Cregan: Thanks. Cheers.

Operator: Your next question comes from Brendan Carrig with Macquarie. Please go ahead.

Brendan Carrig: (Macquarie, Analyst) Good morning guys. Just a few quick ones from me. Can you just confirm Rob if – you mentioned the upside or further upside in the second half from the breakage side of things, is any of that factored into the guidance? I'm assuming it's not.

Rob Shore: A small amount of it is factored in. We are being quite conservative. We are still assessing it. We have got, we have obviously got another couple of months of data in through January and through to the 17 February that we can look at, and there is nothing telling us that there is anything changing, but you know it is just trying to be conservative because every month you get more data and you get further away from the date of card activation you get more confidence in that, and so that is why we sort of set the threshold and we have not taken anything on cards loaded after 1 December 2019. So, on those cards we have now got a decent amount of data. So, a fair degree of confidence of what is going to come through, but just playing it safe until we sort of get, really finish the analysis and get a bit further along the line.

Brendan Carrig: (Macquarie, Analyst) Okay, and then Tom just to your comments on M&A, just given the activity that we are seeing, maybe just given a bit of a quick update just in terms of the integration of PFS and if there is any work left to do and would that preclude you from taking on a more material sized transaction from an M&A front or would it be still down, you know more in the bolt-on size sorts of things that we should be thinking about if there is anything coming along?

Tom Cregan: Yes, good question. I mean, like the beauty of PFS was it was, you know I think what we called a kind of an integration light business in the fact that it did not require us to migrate anything from their existing processing systems for example onto our own, because they had already spent GBP4 million building their own and they were in the process of doing that anyway. So operationally and kind of from an IT perspective it was relatively integration light which was good.

That integration largely is complete. I mean the, you know as of the end of February the website disappears – it is an EML website, emails disappear, the teams are fully integrated, our European business and their European business is now the one unit, so that has one new CEO from the end of February onwards.

Culturally they were moved onto our systems early days. We bought them onto our STIP for example because we wanted, we do not want to have employees in a team with, where we are paying bonuses to one and not to another. So that was an investment decision that is in the millions that we really wanted to do, because it is about consistency if you are employee based, but it is also about hearts and minds and wanting those employees to really buy-in to what we are looking to create.

By and large, I mean, you know, a lot of the credit rests with the broader team, but it has been a bloody good job because the – honestly, if you spoke to some of the guys in PFS right now they would tell you that they feel like they have worked for EML for years. So I think we have kind of got through that integration and we are now really pushing forward on product collaboration and other things and so that would not preclude us from doing a PFS like deal, it would just depend on where that is, you know what region that is in, what part of the payments system, what part of the payments industry it is in. So that, I would say we are large, yes I would say we have largely broken the back of that PFS integration so we would be more than able to look at other deals, whether they are bolt-ons or whether they are larger more strategic deals.

Brendan Carrig: (Macquarie, Analyst) Okay, that's clear, and then one last one, just maybe any comment that you'd like to make on the, you know a low probability large reward program, but just what's happening with the New South Wales gaming chatter more recently, given your relationships with the New South Wales Government with Opal card already?

Tom Cregan: Yes, we have spoken to – late last year we spoke to, we spoke to most of the manufacturers of poker machines just to see what their take on it was, and as is common their response will be, you know we have just got a watching, we have got a watching brief on this. Then just from where I sit, not being an expert or being that close to that industry, but there certainly seems like there is more momentum building for change in that regard, and so if there was we would love to be front and centre because it would be sizeable. I mean the Opal one is only in pilot, but there is, I think their published information and there are several hundred thousand users of the transport network, so if it did, if the pilot expanded and went further, then having that relationship with the government is a great thing. We get to kind of prove our stripes and then hopefully that would position us well if that does gain traction and there is a real push to do it.

I get the sense there is a fair bit of stuff to play on under the surface before it becomes a reality, I do not know, reading the tea leaves kind of makes me think there is something that will happen there in the next couple of years anyway.

Brendan Carrig: (Macquarie, Analyst) Yes, I agree with that. I guess pubs and clubs are strong lobbyists, so we'll see, we'll see how we go. All right, I'll leave it there. Thanks very much.

Tom Cregan: Thanks. Cheers.

Operator: Once again, if you wish to ask a question please press star one on your telephone and wait for your name to be announced. Your next question comes from Ron Shamgar with TAMIM. Please go ahead.

Ron Shamgar: (TAMIM, Analyst) Yes, hi guys. Well done. A terrific result. I'll just go really quickly, but you mentioned you won a card program off a competitor in Europe, can you talk to the meaningfulness of that?

Tom Cregan: Yes, well the, yes so it was a company, so when we launched our gaming programs in Australia, you know companies, some other gaming operators in Europe worked with a different provider, which we, at the time – and this is some years ago – at the time we did not think that that was necessarily set up for success, based on the way it was set up compared to ours. So that was, you know we signed them, I think if memory serves me, in September last year and then rolled, converted across. I do not know that I am allowed to say the number of card holders, but it is north of 50,000 and well north. So, they probably would not mind me saying that, but it is above that number. So it is a sizeable card conversion and obviously that then gives us an accretion base, as in a pool of immediate revenues from the minute it was launched.

Ron Shamgar: (TAMIM, Analyst) Yes, okay, and then, I mean you mentioned you are winning four out of 10 deals in your pipeline, so the deals that you are not winning is it sort of, is it based on price or is it based on lack of capability which is what you are building now through these FinLabs?.

Tom Cregan: Yes, that is a good question. I would say it is a bit of a mish-mash of things to be honest. We have lost, we said last year that we have lost deals by not being able to support them on the Visa network, so that is for sure, so we launch – and that is one of the Accelerator initiatives, but that will be fully live in Aussie by the end of March. It will be live in the US by the end of June. It will be live in Europe by the end of August or September. So we will have all of that same functionality we have on Mastercard on the Visa network. So some of those deals have been lost because we could not facilitate them on Visa and that ties back to the fact that actually whether they are small companies or larger companies, you know Mastercard and Visa use their own balance sheet to try to get these companies to choose one or the other early on. That could be in the form of financial assistance. It could be grants. It could be research. It can be all sorts of stuff.

So it is, I would not say it is common, but it is becoming more common to actually talk to start-ups and for that company to say I have already decided to go on the Visa network, and a year or two ago they would have been agnostic as to whether they were on Visa or Mastercard, but they are now getting some kind of incentives to choose one or the other.

So, some of the loss would have been that and so we will clearly address that in the next six months and then hopefully that opens up a whole different wealth of opportunity for us in these regions on the customers that are choosing Visa. The next bit I would say would be price. You know we have got a pretty – there are companies out there who have a strategy and that strategy might be fine, of never, don't – and these are US companies in particular – about growth, growth, growth but never, never intend on making profits.

I mean we; you know we are seeing that in all sorts of industries right at the moment, but you can point to companies in the US with $10 billion, $15 billion market caps with not a shred of earnings and probably never going to have a shred of earnings, and we just don't, we cannot compete with that. We call that irrational capital and we just don't, we just, we exit at that point because we are not driven to – this business has not been designed to grow at 100% a year but throwing profits and cash out the window. So it is going to be, you know in my terms - which you know it is just my terms - a kind of proper business of growth, revenue and cash.

So, certainly some deals are on price. If they are really material, you know once in a five-year kind of thing, obviously you sharpen the pencil. If they are not then you just make the decision to kind of walk away.

We don't see much, I wouldn't say product is a cause of not winning that at the moment, but I could see that in years to come you would certainly want to have a beefed-out product, because we are seeing companies now saying to us – okay, like my example before with Interchecks, I want to be able to pay part of my customers' fees to a card, I want part of it to Venmo and I want part of it to a bank account, can you do that? You have just got to be able to say yes. All that build we are doing now is to be able say yes, because they have got, you know they are not going to say, okay, well I will just wait for you to do it. It is like no, I want it now. So not product, but that is why we are going to have to continue to invest in product.

The other, the 49, the 40% win rate also comes to deals that never come to fruition as well, so it can be companies that defer their decision, companies that were looking to obtain funding that obtain funding and therefore push it back. So, there is a mish-mash. There is not really one clear thing that I could point out.

Ron Shamgar: (TAMIM, Analyst) Yes, okay, and then out of the $136 million cash, how much is really free cash if you – you know working capital and then payments for deferred considerations and so on?

Rob Shore: I mean you cannot really, the deferred consideration there is certainly an amount that is tied up for that coming through into August 2021. There are vendor loans due in ’23 and ’24, but I mean we are pretty cash generous as you can see

Ron Shamgar: (TAMIM, Analyst) More this calendar year I guess, so how much of that, another way of asking is how much of that can be deployed for acquisition?

Rob Shore: Oh quite a lot, but we have not got any secured debt as well Ron, so you know there is a very large pool of available capital, but we have not given out the split because obviously that would involve giving out the year one earn out estimate for PFS and we have not given that out.

So, suffice to say we have got quite a large pool of capital available to deploy.

Ron Shamgar: (TAMIM, Analyst) Yes, okay, and then just last one from me, you gave guidance, but you didn’t actually quantify the GDV for the full year.

Rob Shore: No. I mean you can back calculate it.

Ron Shamgar: (TAMIM, Analyst) Well we don’t

Rob Shore: We did not because there is a lot of, there are moving parts in terms of Gift and there are moving parts in terms of GPR. It sort of, really the volume is just a function of, you know we have sort of modelled different scenarios of how we think Gift will go and how we think different GPR programs will go.

Tom Cregan: It was probably an oversight to be honest Ron. I am not sure we thought much about it because with guidance we just, I mean GDV is not a financial guidance measure, but we can certainly come back and say what we think the GDV will be. I mean it is not too big and back calculate…

Ron Shamgar: (TAMIM, Analyst) No, I guess the reason is you sort of, you are trying to get that revenue margin, I think 93 bps was the first half, and just whether the, you know whether they’re sort of going over the next couple of years, can you get that over 100 bps?

Rob Shore: I would bank on it basically remaining flat. I mean it is really, the overall group is at 93 bps, it is just a mix, the segment mix issue. So, if you model it out segment by segment, then they are pretty flat. Maybe it will creep up towards 100 bps as things like multi-currency in PFS come back. That will help drive it up a little bit, but broadly I would just model it on a flat group, 93 bps.

Ron Shamgar: (TAMIM, Analyst) Yes, okay, well great results guys. Thank you.

Tom Cregan: Thanks Ron.

Operator: Your next question comes from the William Cunning with Carter Bar Securities. Please go ahead.

William Cunning: (Carter Bar Securities, Analyst) Hi Tom, Rob, thanks for the colour provided so far. I just had two quick questions around the GPR business if I could. The PFS business, the margin looks like it was about 122 basis points, which is down a fraction from where it was at the second half. I just have a question around the mix of the digital banking and the government. I think in the past it was about a, you know sort of mid to low 40% of the business each, has that changed?, has that split changed considerably and is that something that you expect to be considerably different going forward? Is that mix now different?

Rob Shore: It has moved around a little bit there Will. I mean you have got probably a bit more government coming through at the moment, but that brings down the yield very slightly. Multi-currently hasn't improved at all yet, just with lock-downs not really expect that improve. Maybe summer, European summer we will see some improvements there. So that is moving it around, but you know you are talking pretty similar yields to what we saw in previous quarters, and when you look at the overall group GPR segment, it is very consistent for the last three quarters.

So I would model it, I wouldn't try and break it down into too many pieces because I think that people get into trouble trying to – we do not give enough information out to model out what government is doing and what digital banking is doing and what salary packaging, what gaming – you know, like it is too hard, too quickly, whereas if you look at the overall GPR segment and you use that yield, and you extrapolate your volumes based on where you want to go with that, you get to a pretty accurate answer.

William Cunning: (Carter Bar Securities, Analyst) Yes, sure, and then I think you answered my second question just on the multi-currency, and then the only other question I had was just around the US gaming, that, the 200 run rate sounds very positive. In the past I think you've said that that's more around the poker side of things as opposed to the sports betting. Is that something that you guys had previously identified as one of the drivers of the US gaming and GPR business or is that sort of a new piece of the driver for that segment?

Tom Cregan: Yes, I think that, I think we didn't know what we didn't know actually Will, because with most of our programs in that segment have been traditional sports betting programs and in the US we launched a number of programs in poker and social gaming and things like that, and so you are, I guess you need the data to say how do the customers perform, and we didn't know that, you know we didn't know that to be frank until we saw it, because for example a sports betting customer is more transactional so they are betting, winning, removing, whereas poker they are playing, exiting the game but leaving their pool there and then coming back to the game and so on.

But you know the kind of several brands we have got over in the US are, you know they are certainly not household names, as I said, they are not the FanDuel's and Draft Kings and these kind of guys, but I think we launched in the US, I would be saying, I guess probably 18 months ago I guess, you know when PointsBet first went live, and so to be on a $200 million run rate is a positive and it means that that segment can grow for us in the future.

William Cunning: (Carter Bar Securities, Analyst) Yes, absolutely, and just from me on that interchange, is the implication there then on those programs, the margin, the revenue conversion margin might be a fraction lower than maybe the 140, 150 basis points expected in US gaming?

Tom Cregan: Sorry, say that again, on the?

William Cunning: (Carter Bar Securities, Analyst) Just on the – given the difference in interchange that you just mentioned on the poker side of things, does that imply a sort of slightly lower margin on that business as opposed to the 140, the 150 expected in the US segment?

Tom Cregan: No, I think it will be the same,] because we earn fees from our customer but then we earn interchange when cards are transacted. We earn interchange on ATM withdrawals and so forth. So, I think the blend will be unchanged.

William Cunning: (Carter Bar Securities, Analyst) Yes, okay, fantastic. Well thanks, thanks so much for that.

Rob Shore: Thanks Will.

William Cunning: (Carter Bar Securities, Analyst) Cheers.

Operator: There are no further questions at this time. That does conclude our conference for today. Thank you for participating.

End of Transcript