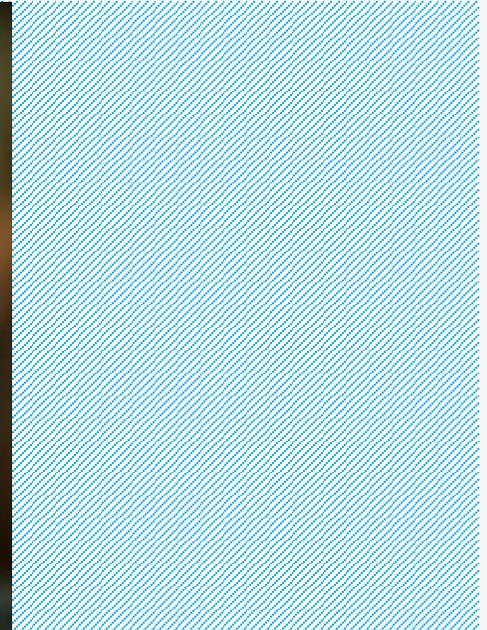


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empowering | Your Money



# Proposed Acquisition of Store Financial Services LLC

April 2016

# Important Notice

This investor presentation (**Presentation**) has been prepared by Emerchants Limited ABN 93 104 757 904 (**EML**) in relation to EML's proposed acquisition of Store Financial Services LLC (**SFS**), which involves an institutional placement of new EML ordinary shares (**New Shares**) to be made under section 708A of the Corporations Act 2001 (Cth).

This Presentation contains summary information about EML and SFUK which is current as at the date of this Presentation. The information in this presentation is of a general nature and does not purport to be complete nor does it contain all the information which a prospective investor may require in evaluating a possible investment in EML or that would be required in a prospectus or product disclosure statement prepared in accordance with the requirements of the Corporations Act 2001 (Cth).

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Each recipient of this Presentation should make its own enquiries and investigations regarding all information in this Presentation including but not limited to the assumptions, uncertainties and contingencies which may affect future operations of EML and the impact that different future outcomes may have on EML.

This Presentation has been prepared without taking into account of any person's individual investment objectives, financial situation or particular needs. Before making an investment decision, prospective investors should consider the appropriateness of the information having regard to their own investment objectives, financial situation and needs and seek legal, accounting and taxation advice appropriate to their jurisdiction.

An investment in EML shares is subject to known and unknown risks, some of which are beyond the control of EML. EML does not guarantee any particular rate of return or the performance of EML. Investors should have regard to the key risks outlined in this Presentation when making their investment decision.

**2016 EML Limited**

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# Executive Summary

## Acquisition

- EML has agreed to acquire 100% of Store Financial Services LLC (“SFS”) in North America
- Acquisition price of US\$35m / AU\$46.7m <sup>(1)</sup>
- Acquisition price represents an EV/EBITDA multiple of 9.3x on pro-forma FY17 US\$3.5m EBITDA <sup>(2)</sup>
- Company will be acquired with US\$3m in net assets including US\$2.5m in cash <sup>(3)</sup>
- Acquisition consideration comprises 75% cash and 25% EML scrip (AU\$35.0m cash, AU\$11.7m in newly issued shares <sup>(3)</sup>)
- The directors of EML are in support of the acquisition

## Overview of SFS

- A leading provider of prepaid stored value processing and programs in the USA and Canada
- Operating since 2003
- 95 employees
- Fully integrated prepaid transaction processor and program manager
- Offers a range of non-reloadable prepaid products, with closed-loop shopping mall card programs representing 85% of funds loaded and evenly split between the USA and Canada
- Recent expansion into B2B Gift card payments, Insurance payments and virtual / digital prepaid programs
- Annual loads of US\$260m in Non-Reloadable cards
- Over US\$2bn per annum processed in digital / virtual card payments
- Two issuing banks in the USA and two issuing banks in Canada provides ADI redundancy
- Direct processing partner of MasterCard

(1) USD:AUD has been assumed at 75c

(2) Purchase price excludes transaction costs associated with the acquisition and capital raising, retention share grant and bonus share grants

(3) Agreed deal structure

# Executive Summary

## Strategic Rationale

- **Established, profitable business:** track record of success, long-term customer relationships, low concentration risk amongst customer base, EBITDA positive since 2009
- **Significant growth opportunities:** The USA is the largest prepaid market in the world with loads projected to exceed US\$715bn per annum across a broad range of re-loadable and non-reloadable segments (4)
- **Large Addressable Non-Reloadable Market:** The market size in the USA for B2B Non-Reloadable programs (Consumer and Employee incentive and rewards) was estimated at US\$68bn in 2016. The Canadian prepaid market has been projected to reach CA\$19bn per annum by 2017 (5)
- **Expanded product range:** SFS has invested in digital, virtual and mobile delivery for non-reloadable cards that we believe we can leverage across our European and Australian operations.
- **Material earnings upside:** SFS acquisition is immediately EPS accretive and contributes profit and cash in FY17 but we would expect earnings to scale as SFS increases its presence in B2B Non-Reloadable, Insurance payments and other prepaid verticals, including potential access to gaming (6)
- **Accelerates market entry pathway for EML:** Significant opportunity for EML to expand reloadable offering into North America, leveraging Australian experience, particularly in sectors such as Gaming and B2B Gift.
- **Provides a platform for further niche prepaid acquisitions in the USA and Canada:** Extract synergy savings through SFS assuming transaction processing and other business functions
- **Diversification:** EML will be operating in 13 countries in Australia, Canada, U.S.A, U.K and Europe, with revenues in 5 currencies and inherent diversification of regulatory and other risks.
- **Low integration risk:** Stand alone processing system, Highly experienced management team with financial incentives to drive financial results; no operational change in the near term, established relationships between key executives and Board members of SFS, SFUK and Tom Cregan.

(4) Mercator Group 12<sup>th</sup> annual US Prepaid cards. Market forecast 2015-2018. December 2015

(5) Global Prepaid Opportunity 2012 prepaid sizing study, Mastercard.

(6) Excludes intangible amortisation charges

# Executive Summary

## Funding

- Purchase price of US\$35m / AU\$46.7m split between cash of \$35.0m funded via the Placement and the issuance of \$11.7m in newly issued equity to select SFS shareholders <sup>(1)</sup>
- The Company will issue approximately \$70.2m of new shares consisting of:
  - Placement to institutional and sophisticated investors to raise \$58.5m at \$1.45 per share
  - \$11.7m equity placement to the vendors at \$1.45 per share (10% escrowed for 12 months, half of which can be released after six months if no warranty claims made)

## Additional Share Issues

- **Retention Share Grant** of 2.83m EML shares to be issued to key SFS executives
- **Performance Based Share Options Grant** of 6.2m options granted to key SFS executives
- On an increased share count of approximately 251.2m shares, the incremental dilution impact would be circa 3.6%

## Financial Impact

- The proposed transaction is expected to be immediately EPS accretive to EML shareholders <sup>(2)</sup>
- 85% of revenues are on long term agreements
- EML anticipates that SFS will contribute AU\$4.7m in EBITDA in FY17 on Revenue of AU\$33.3m <sup>(1)</sup>
- Material earnings upside from:
  - Continuation of historical growth rates, with highly predictable revenue and earnings contribution
  - Expansion of programs in new sales verticals
  - Incremental revenue from re-loadable programs
  - The ability to access the North American gaming market

## Share Trading

- Approximately 48.4m shares to be issued, equivalent to 25.0% of the 193.8m existing shares outstanding
- Shares in EML provided to SFS leadership (approximately 43% of shares are subject to usual internal approvals and ASX trading restrictions)

(1) USD:AUD has been assumed at 75c

(2) Excludes transaction costs associated with the acquisition and capital raising, retention share grant and bonus share grants and intangible amortisation

# Equity raising – Placement

## Structure

- Placement to institutional and sophisticated investors

## Placement Size

- \$58.5 million (40.35m shares)

## Placement Price

- Fixed offer price of \$1.45 per share representing a discount of:
  - 12.7% to the last close of \$1.66 on 27 April 2016
  - 10.9% to the 5 day VWAP of \$1.63

## Use of Funds

- \$35.0m cash component of SFS acquisition consideration
- \$3.5m transaction and acquisition related costs
- \$20.0m additional cash on balance sheet for additional growth oriented investments

## Timing

- Books close on 29 April 2016 at 11:00am (Sydney time)

## Ranking

- The new shares will be fully paid and rank equally with EML' existing issued shares

## Lead Managers

- Petra Capital and Wilson HTM

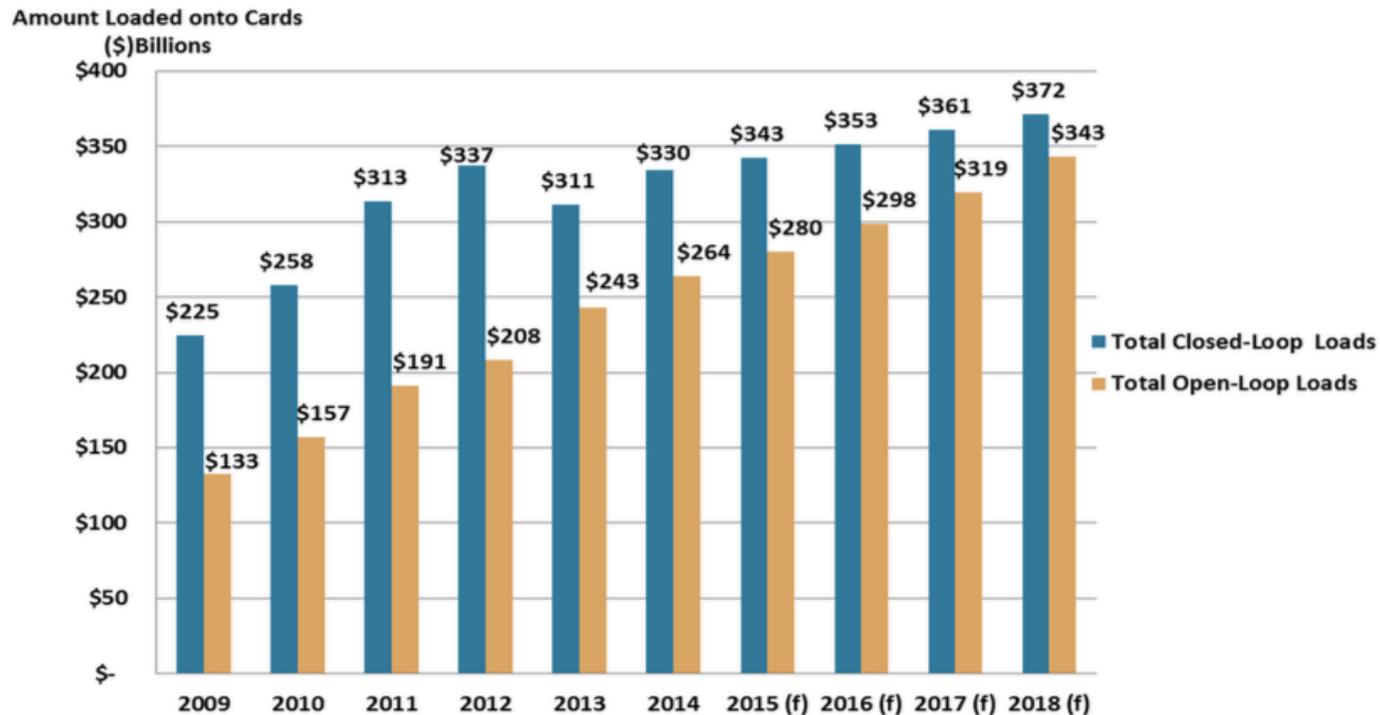
# Placement and Acquisition timetable\*

<b>Trading halt</b>	Pre-open, Thursday, 28 April 2016
<b>Books Close</b>	<b>11am (Sydney time), Friday, 29 April 2016</b>
<b>Trading Recommences</b>	Monday, 2 May 2016
<b>Conditions precedent satisfied/waived</b>	Friday, 27 May 2016
<b>Settlement (subject to EML conditions precedent being satisfied)</b>	Friday, 3 June 2016
<b>Acquisition completes</b>	Friday, 3 June 2016
<b>Allotment of new shares</b>	Monday, 6 June 2016

\* Timetable is indicative only and subject to change

# USA Prepaid Market Size – USD\$715bn in Loads in 2018

Figure 2: Total Amount Loaded on Open-Loop and Closed-Loop Prepaid Cards in the United States, 2009–2018(f)



Source: Mercator Advisory Group

# Introduction to SFS

## Key Metrics

300+

Gift card programs in the market in the USA and Canada

5.5m

Gift cards issued in 2015 worth US\$260m in loads

46m

46,000,000 gift cards issued since inception, representing over US\$2 billion in total loads

\$2BN

Processing in excess of US\$2bn per annum in digital / virtual and mobile payments

## a) FY17 Pro-Forma Financials<sup>(1)</sup>:

- a) Revenue US\$25m / AU\$33.3m
- b) Revenue components:
  - a) Interchange – 28%
  - b) Transaction Fees – 12%
  - c) Breakage / AMF (Account Maintenance Fees) – 56%
  - d) Establishment Fees – 4%
- c) EBITDA US\$3.5m / AU\$4.7m

## b) SFS has been investing heavily in new sales segments to deliver incremental EBITDA growth:

- a) B2B Non-Reloadable programs (Consumer / Employee Rewards and Incentives)
- b) Re-loadable programs (will leverage EML gaming re-loadable solutions)
- c) Insurance claim payments
- d) Gaming programs

(1) USD:AUD has been assumed at 75c

# Introduction to SFS – Leadership Team

## **Mr. Eric Mettemeyer – Chief Executive Officer**

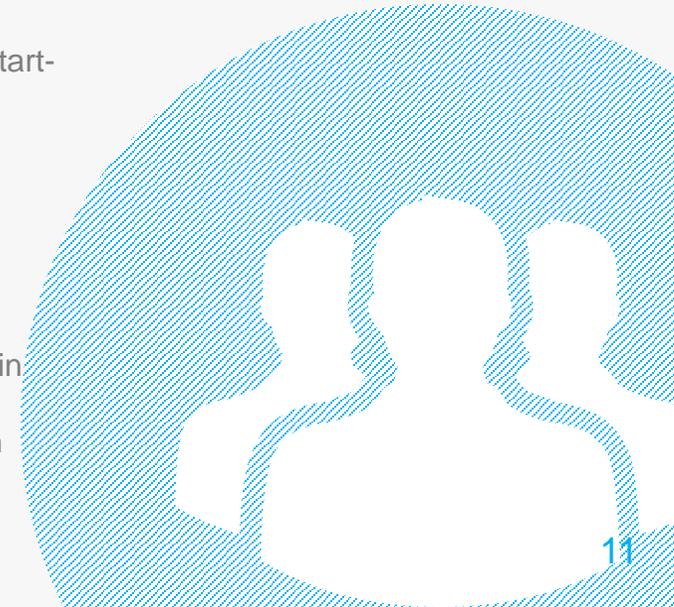
Eric is the CEO of Store Financial, bringing thirteen years of experience in the payments industry. His initial experience in the industry was the management of more than ten acquisitions of prepaid, card processing and money transfer companies in Europe and the Americas for Euronet Worldwide. He then subsequently served as Managing Director of epay Americas and Asia, a division of Euronet Worldwide. A former CPA, his previous experience also includes International Tax, Financial Planning and Treasurer roles for companies including Arthur Andersen and Sprint. He received his undergraduate degree in Accounting from the University of Iowa and his MBA from Thunderbird School of Global Management.

## **Mr. Matt Waldie – President and Chief Operating Officer**

Matt is the President and COO of Store Financial, bringing 13 years of experience in the payments industry, previously holding positions at epay, AT&T and several venture-backed start-up companies. Matt earned his BBA at Baylor University and an MBA from Pepperdine University.

## **Mr. Mike Miroslaw – Executive Vice President**

As EVP of Store Financial, Mike leads the product management division with extensive experience in the payments and telecommunications industry. Before joining Store Financial in 2003, Mike was co-founder of UWI, a regional telecommunications company, which after a series of acquisitions become a subsidiary of Cincinnati Bell. Mike has a bachelor's degree in business administration from the University of Kansas



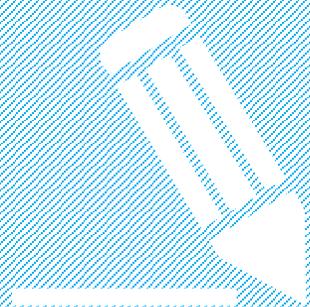
# Transaction Details – Management Options

## Retention Option Grant of 2.83m EML shares:

- Key recipients include Eric Mettemeyer (CEO), Matt Waldie (President and COO), Mike Miroslaw (EVP) and six other senior leaders.
- Zero strike price
- Equates to 1.1% dilution on expanded share base (post placement and exercise of options)
- Vesting in equal tranches over three years
- Subject to service conditions

## 6.2m Performance based share options granted to SFS Leadership:

- Performance options likely to translate into approximately 2.5% dilution on expanded share base (post placement and exercise of options)
- Sliding scale where 1m options are converted based on incremental US\$1m EBITDA achievement
- Full 2.5% dilution would only be realised in the event of the achievement of US\$10m in EBITDA
- Options expire in 3 years and are subject to service and performance conditions
- Each option conversion escrowed for 12 months from the date of issue



# Key SFS Shopping Mall Prepaid Customers



TangerOutlets

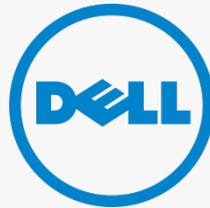


devonshire<sub>mall</sub>



# Other Key Programs

Includes consumer incentive and rewards, digital / virtual gift cards and insurance claim payments



Etsy

Lenovo

UMB

T-Mobile

  
Motivation Excellence, Inc.

BAUSCH+LOMB  
See better. Live better.



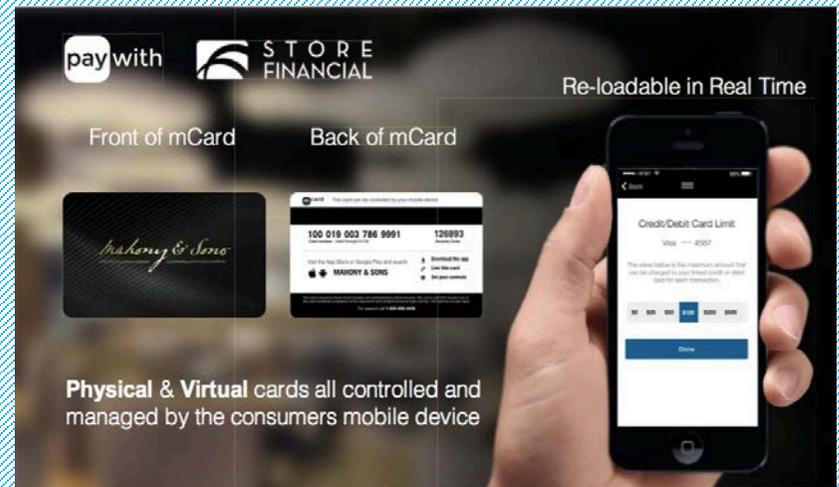
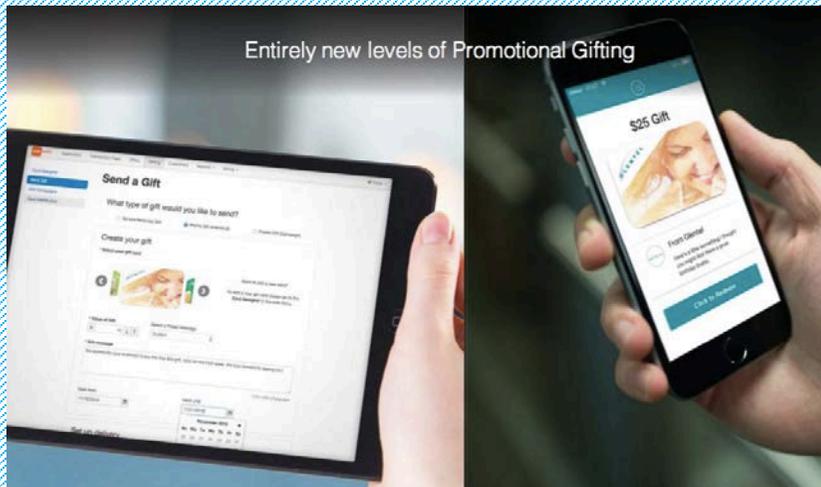
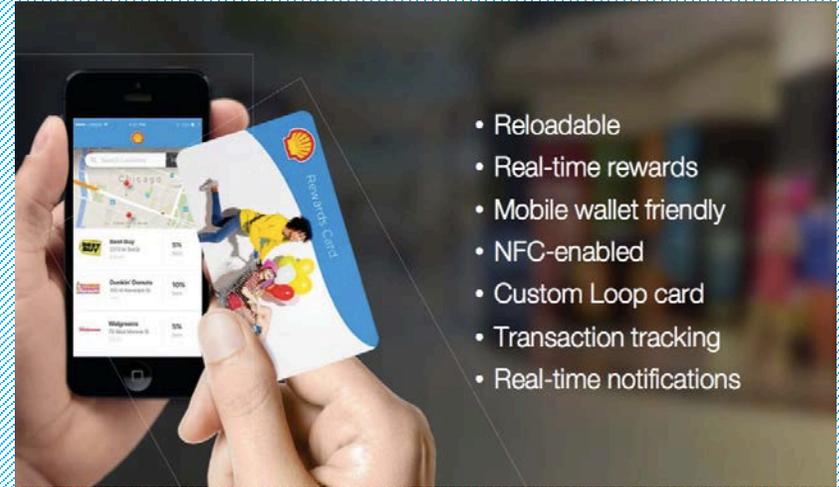
payplus  
Solutions, Inc.

20|20  
Helping you do better research.

Alcon<sup>®</sup>  
a Novartis company

usbank.

# Extensive Mobile and Digital Payments Capabilities



# Recent Key Deal Signed

## Partnering with HYLA Mobile and Facebook to provide virtual cards for mobile phone trade-ins



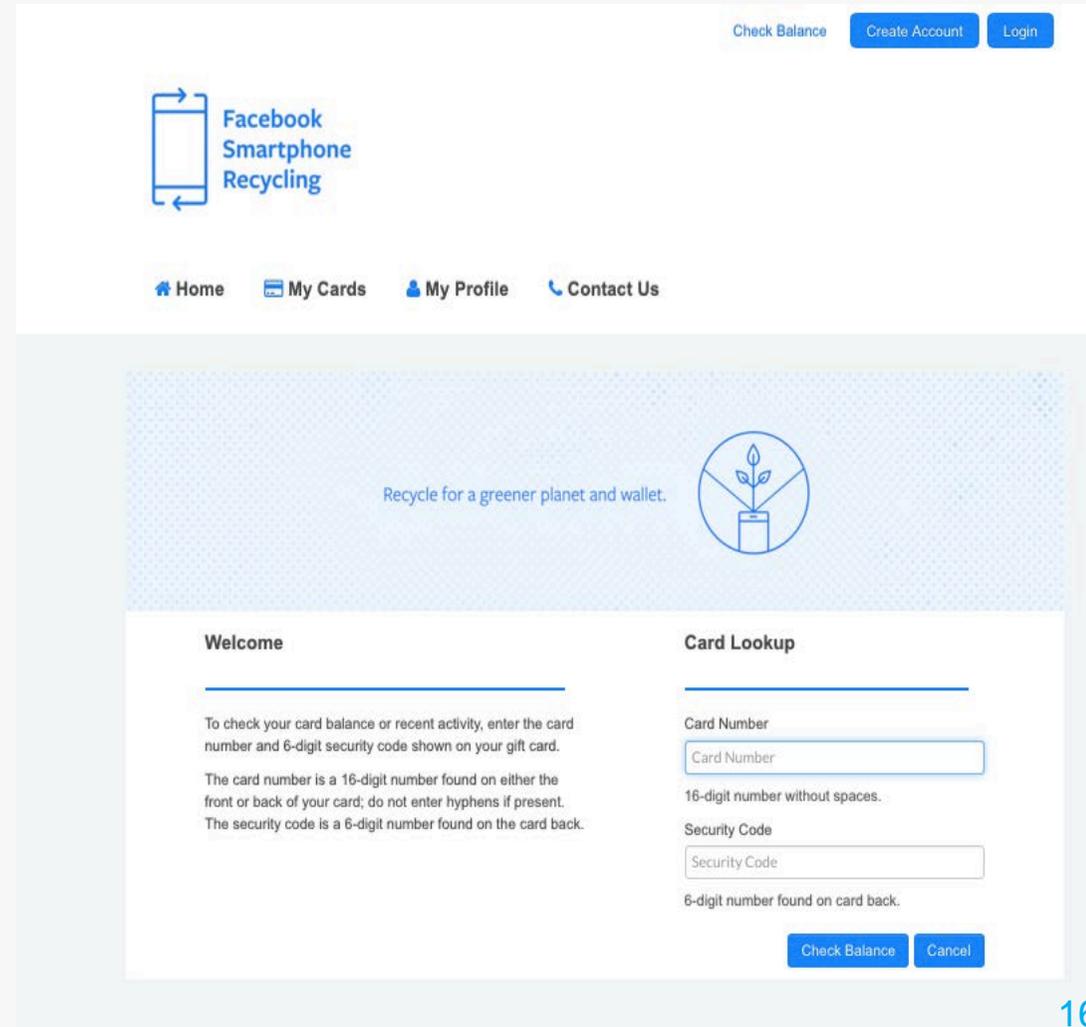
Facebook Smartphone Recycling

When it comes to recycling your unused smartphone with Facebook Smartphone Recycling, one thing is for sure: it's smart. Just send us your old phone and you will help the planet, give your phone new life, and get some cash.



### Recycling Your Smartphone is the Smart Thing to Do

- Get Paid For Your Phone**  
We pay you to recycle your phone. That's right. Get a price quote for your old phone online and send it in. You can get up to \$10 in return. It's the smartest thing you can do for your wallet.
- Help The Planet**  
Over two million smartphones are not disposed of properly. One phone can make a change. With Facebook Smartphone Recycling, you will play a part in reducing e-waste and bettering our future.
- Give Your Phone New Life**  
Don't let your old smartphone sit unused in a drawer. With Facebook Smartphone Recycling, we take your unused smartphone so it can be reused and given new life.



Check Balance Create Account Login

## Facebook Smartphone Recycling

Home My Cards My Profile Contact Us

Recycle for a greener planet and wallet.

### Welcome

To check your card balance or recent activity, enter the card number and 6-digit security code shown on your gift card.

The card number is a 16-digit number found on either the front or back of your card; do not enter hyphens if present. The security code is a 6-digit number found on the card back.

### Card Lookup

Card Number

16-digit number without spaces.

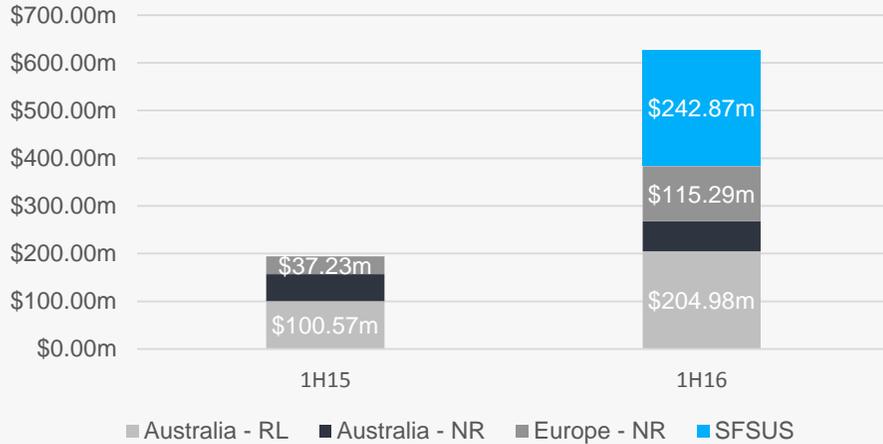
Security Code

6-digit number found on card back.

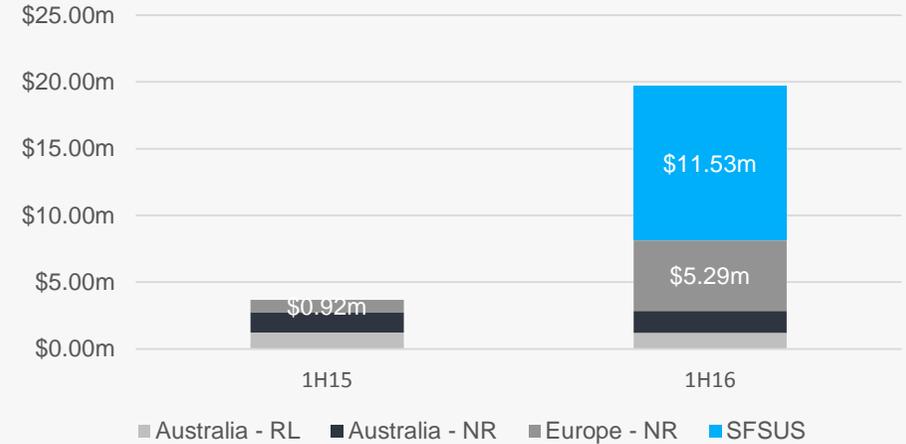
Check Balance Cancel

# SFUS Key metrics

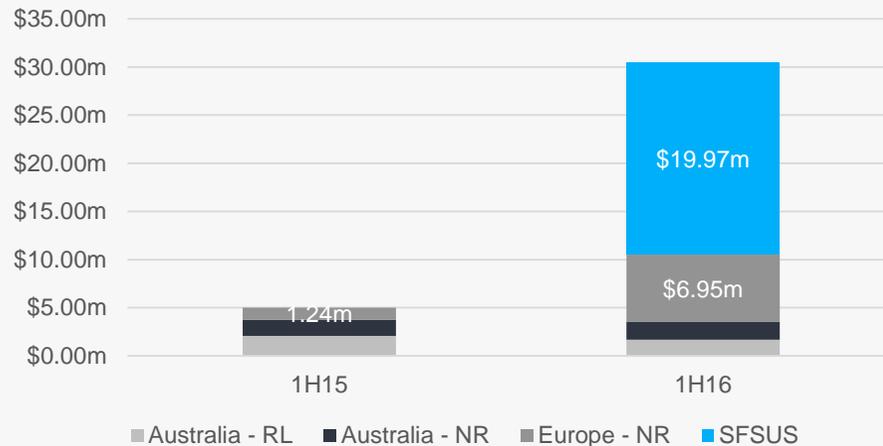
## \$ Loaded 1H15 v 1H16



## Gross Profit 1H15 v 1H16



## Revenue 1H15 v1H16

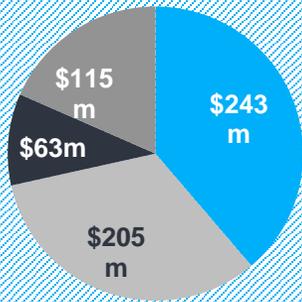


## Active Accounts 1H15 v 1H16

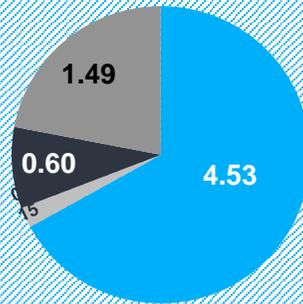


\* The metrics above include the results SFUS assuming they were part of the EML consolidated group for the entire period under review. Metrics in non AUD have been converted to AUD at an average rate for the 6 month period.

# SFS Key metrics



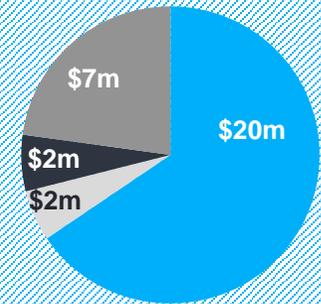
**AU\$ (m) Card Loads 6 months to Dec 2015**



**Number of Active Cards (m) at 31 Dec 2015**



**AU\$ (m) Gross Profit 6 months to Dec 2015**



**AU\$ (m) Revenue 6 months to Dec 2015**

■ SFUS ■ EP SL: Non-Reloadable ■ EP SL: Reloadable ■ SFUK

\* The metrics above include the results SFSUS assuming they were part of the EML consolidated group for the entire period under review. Metrics in non AUD have been converted to AUD at an average rate for the 6 month period.

# Specific Risks

There are a number of risks, both specific to EML and of a general nature, which may affect the future operating and financial performance of EML, its investment returns and the value of its shares. Many of the circumstances giving rise to these risks are beyond the control of EML. This section describes certain specific areas that are believed to be the major risks associated with an investment in EML.

Each of the risks described below could, if they eventuate, have a material adverse effect on EML operating and financial performance. You should note that the risks in this section are not exhaustive of the risks faced by a potential investor in EML. You should consider carefully the risks described in this section, as well as other information in this presentation, and consult your financial or other professional adviser before making an investment decision.



## Specific Risks

- **Completion Risk:** Completion of the acquisition is conditional on certain matters. If any of the conditions are not met, completion of the acquisition may be deferred or cancelled. Failure to complete this transaction and any action required to be taken to deploy capital raised may have a material adverse effect on EML's financial performance, financial position and security price.
- **Reliance on Information Provided:** EML undertook a due diligence process in respect of SFS, which relied in part on the review of financial and other information provided by the vendors of SFS. Despite taking reasonable efforts, EML has not been able to verify the accuracy, reliability or completeness of all the information which was provided to it against independent data. Similarly, EML has prepared (and made assumptions in the preparation of) the financial information relating to SFS on a stand-alone basis and also to EML post-acquisition included in this Presentation in reliance on limited financial information and other information provided by the vendors of SFS. EML is unable to verify the accuracy or completeness of all of that information. If any of the data or information provided to and relied upon by EML in its due diligence process and its preparation of this Presentation proves to be incomplete, incorrect, inaccurate or misleading, there is a risk that the actual financial position and performance of SFS and the combined group may be materially different to the financial position and performance expected by EML and reflected in this Presentation. Investors should also note that there is no assurance that the due diligence conducted was conclusive and that all material issues and risks in respect of the acquisition have been identified. Therefore, there is a risk that unforeseen issues and risks may arise, which may also have a material impact on EML.

# General Risks

- **Changes in accounting policy:** SFS will convert to the EML accounting policies. It is possible that future accounting advice changes items such as the treatment of breakage revenues.
- **Legislative or regulatory changes:** There are a number of legislative or regulatory risks to consider, many of which are common risks associated with payments companies and are common to EML. These could include a regulatory change with respect to regulating breakage, a regulatory change with respect to determining interchange rates, rules relating to the identification of customers or requirements imposed on SFS by the payment schemes (Visa, MasterCard).
- **Market Risk:** The North American prepaid market might not achieve the growth rates as forecast by a number of consulting firms and the payment schemes.
- **Exchange rates:** If the Australian dollar was to strengthen relative to the USD and CAD our earnings from the SFS subsidiaries will be impacted. Such a risk also exists with respect to earnings from our UK subsidiary with the strengthening of the AUD relative to the British Pound over Brexit fears.
- **Interest rates:** Interest rates in the USA are at historic lows but it is possible that interest rates decline to zero which would also impact future earnings.
- **Economic risk:** SFS has operated through the global financial crisis but it is possible that the economies of Canada and the USA weaken and this impacts future prospects.
- **Asset impairment:** EML has undertaken a number of asset impairment tests with our auditors in the past and no impairment has been recorded, however it is possible that a future impairment is recorded against the Australian business and/or SFS.
- **Taxation:** Taxation rates in the USA and Canada could increase and depress post-tax profits from SFUK.
- **Customer Loss:** Loss of a key customer or customers would lead to negative impacts on revenues and earnings.
- **Competition:** The USA in particular is a highly competitive prepaid market and it's unlikely that the number of competitors will lessen in the future.



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