

Results Presentation for the Year Ended 31 March 2018

June 2018



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AGENDA

Overview

1

Full Year Results &
Commentary

2

Business Update

3

Summary &
Outlook

4

OVERVIEW

- ❑ Smartpay is a merchant focused FinTech
- ❑ We have a significant position in the New Zealand payments market and a growing Australian business

Leading NZ Provider

>30% market share

Payments partner to 3 of 4 banks

~110 staff

Dominant provider to taxi market



**Growing Market Share
In Large Market**

REVENUE MODEL



Pure Rental Model

- Term: 3-5 year contracts
- Ave rental: NZ\$48 / month
- Terminal payback period: 6 - 8 months

Every 1,000 terminals adds: ~\$500k incremental revenue / EBITDA



Transitioning from fixed rental to transactional

Legacy:

- Predominantly fixed rental
- Ave RPU = AU\$43 / month
- Terminal payback period:
6 – 8 months

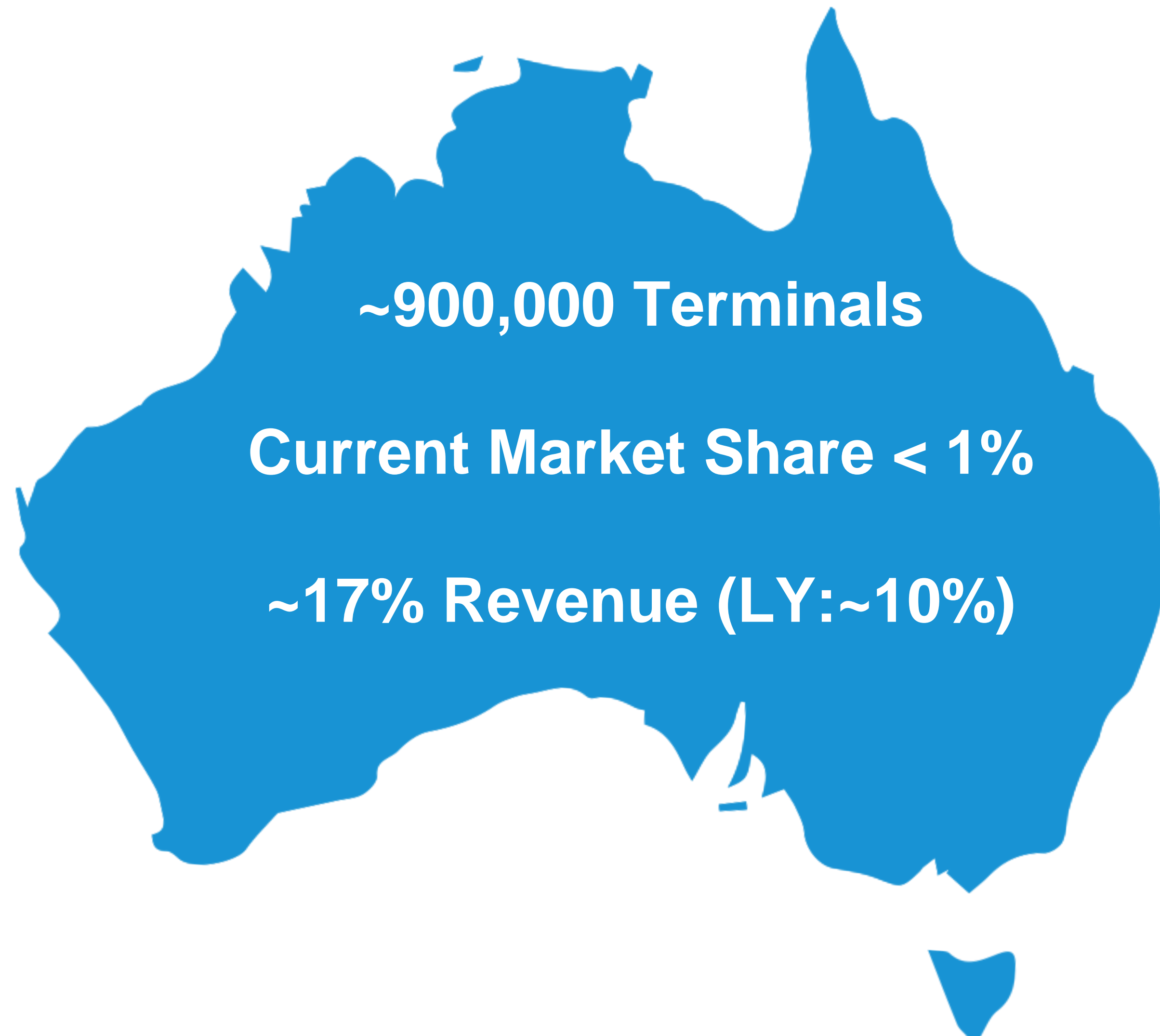


New:

- Predominantly “clip of ticket”
- Target RPU AU\$100 + / month
(variable by customer size)
- Terminal payback period: 3 – 4
months (variable)

~\$1m + incremental revenue / EBITDA

THE OPPORTUNITY IN CONTEXT



~110,000 Terminals
>30% Market Share
~83% Revenue (LY:~90%)





STRATEGY

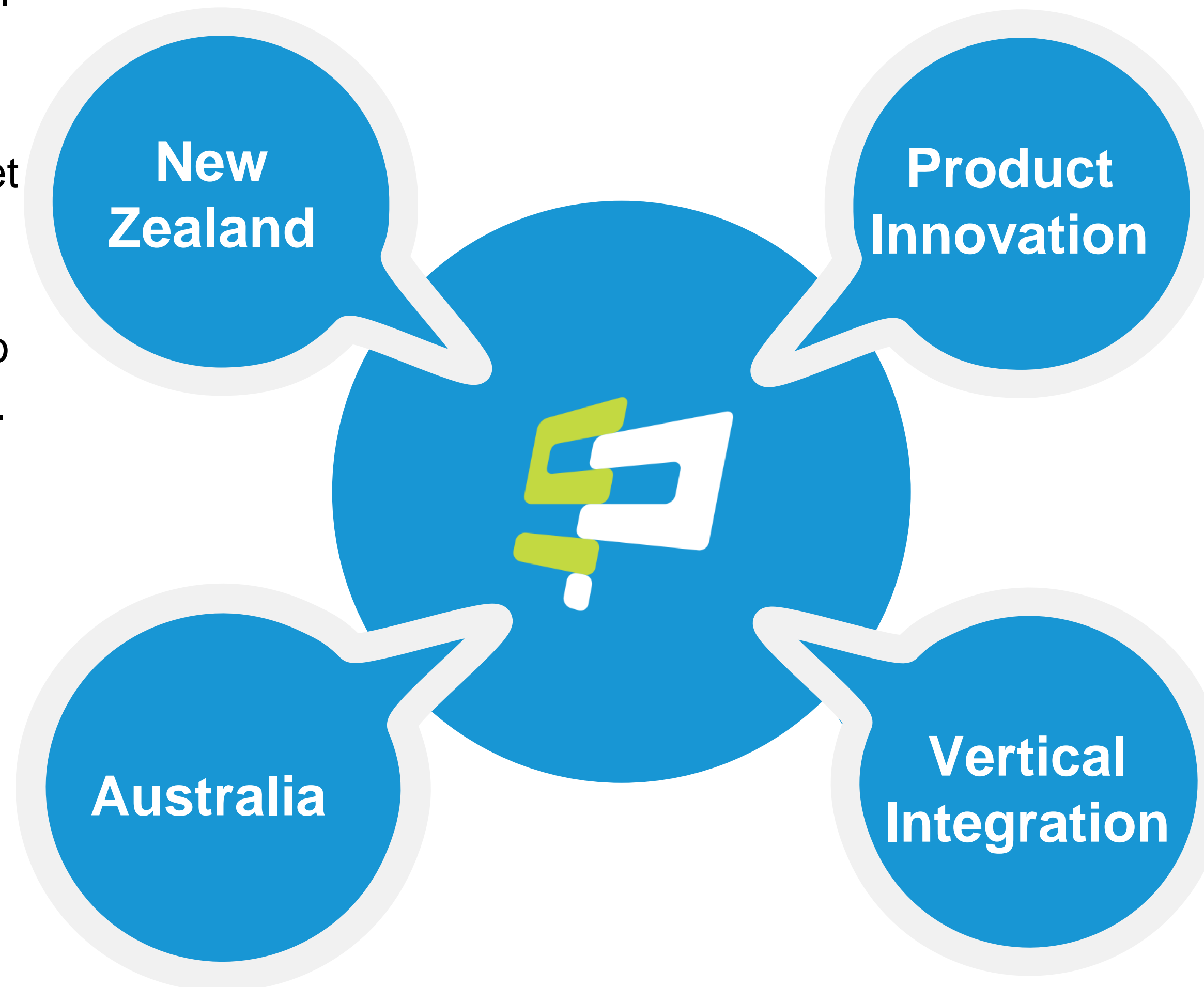
OUR STRATEGY

1. NZ – Maintain and Grow the Base

- NZ remains the engine room of the business.
- Two focus areas:
 1. Maintain and grow our market share through introduction of new products.
 2. Utilise operational capacity to support growth into Australia.

2. Australia – Organic Growth

- Accelerate growth through:
 - Vertical integration – add acquiring capability.
 - Product innovation – Cloud based payments.



3. Product Innovation – Payments to the Cloud

- **Phase 1** – Cloud POS integrations.
- Increase our addressable market as the shift to cloud based POS gains pace
- **Phase 2** – add other payments products – eg Alipay

4. Vertical Integration – Australian Acquiring

- Direct participation in transaction fees = higher margin.
- Removes reliance on specific bank acquirers for pricing competitiveness.
- Adds flexibility and new product options.

KEY FOCUS AREAS



“ Add Acquiring Capability to Energize our Australian Business “

“ Payments to the Cloud “

VERTICAL INTEGRATION – AUSTRALIAN ACQUIRING OPPORTUNITY

1

The Australian EFTPOS/card acquiring market is worth in excess of A\$2Bn annually.

2

Historically there was a regulatory requirement in Australia to have a banking licence to acquire card transactions.

3

This regulatory requirement has been removed.

4

This change has opened access to participate in this A\$2Bn acquiring revenue to nimble, innovative merchant facing payments providers.

5

We believe Smartpay is well placed to participate.

6

This will move the business away from predominant reliance on hardware rental towards higher margin financial transaction revenue and ultimately position the business as a value add financial system access provider.

7

Expected benefits:

- **higher margin** through transaction participation;
- **greater pricing flexibility** leading to higher sales;
- **New product opportunities**

8 - Status

- **Launched Nov 2017**
- **Early signs encouraging and supporting expected benefits**

PRODUCT INNOVATION – PAYMENTS TO THE CLOUD



vend



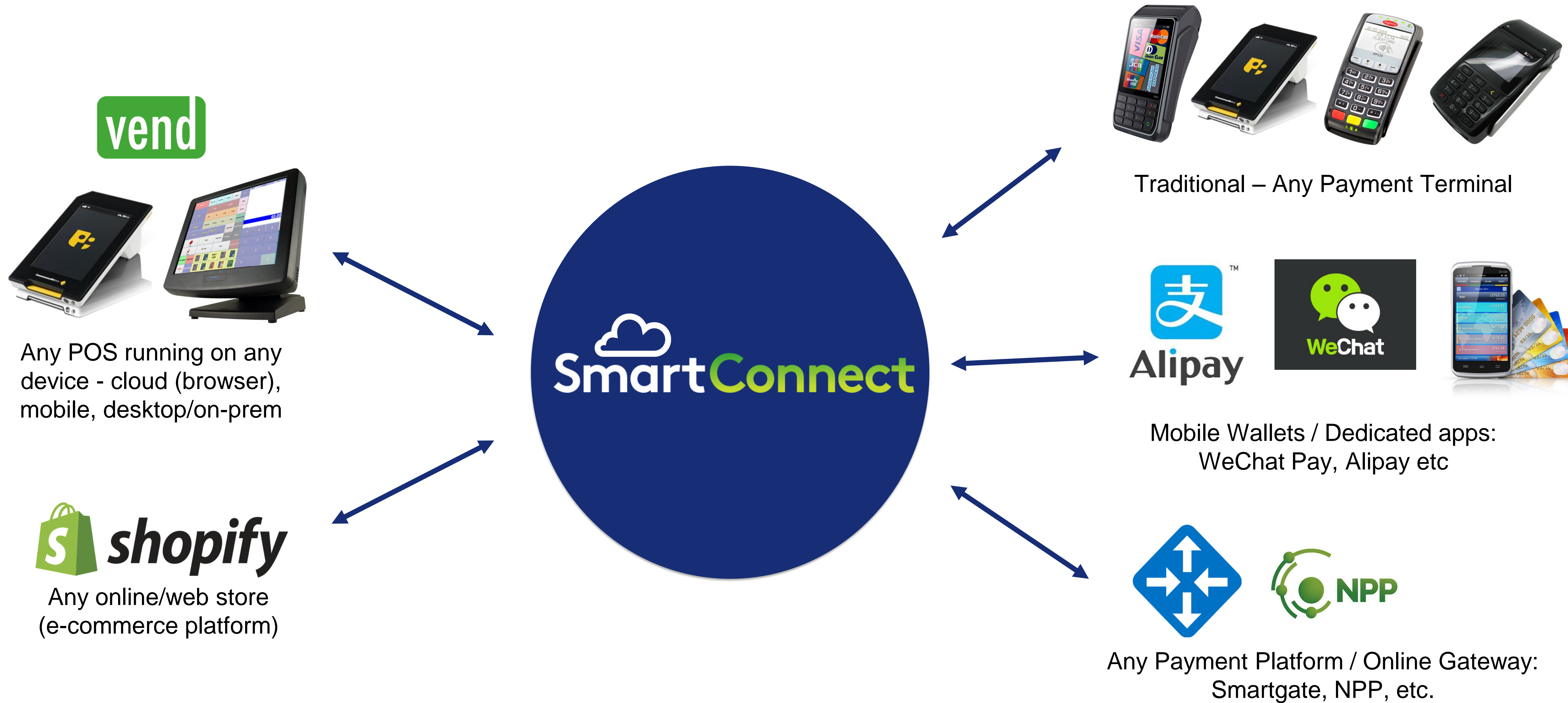
PRODUCT INNOVATION – PAYMENTS TO THE CLOUD



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ONE PAYMENT PLATFORM FOR ANY SOLUTION*



*Diagram depicts possible use cases – actual products may be different



FULL YEAR
FINANCIAL RESULTS

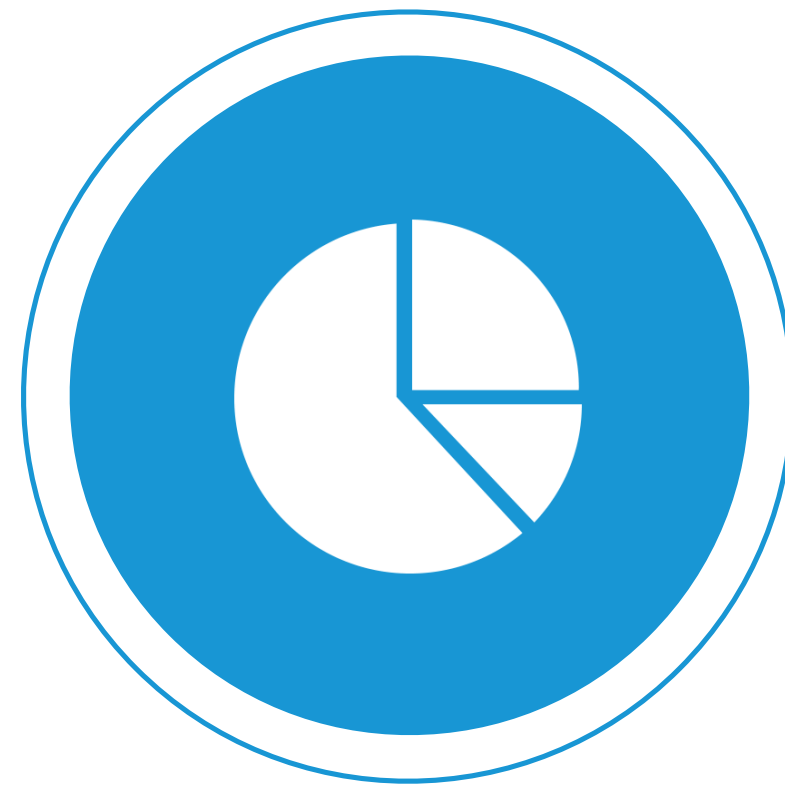
FULL YEAR FINANCIAL RESULTS – March 18

REVENUE



↓ FY18: \$20.4M
VS
FY17: \$20.9m

EBITDA*



↓ FY18: \$9.6M
VS
FY17: \$9.6m

NET PROFIT AFTER TAX



↑ FY18: \$2.5M
VS
FY17: \$2.2m

DILUTED EARNINGS PER SHARE (EPS)



↑ FY18: 1.5 cents
VS
FY17: 1.3 cents

NET DEBT



↓ Full Year: \$23M
VS
Interim: \$24.9m

*EBITDA = Earnings Before Interest, Tax, Depreciation, Amortisation (including share option amortisation), Impairments and Foreign Exchange Adjustments. EBITDA is a useful non-GAAP measure as it shows the contribution to earnings prior to finance costs and non cash items.

RESULTS COMMENTARY

- Slightly lower Revenue reflects:
 - lower revenue from external software development due to focus on development for internal projects (Acquiring; SmartConnect; Alipay etc)
 - Slightly lower revenue in our NZ business, mainly corporate customers (a relatively small segment of our NZ customer base)
 - A large terminal order not completed by 31 March
- Increase in Operating Cashflow applied to:
 - Higher investment in technical development for new products (Acquiring; SmartConnect; Alipay etc)
 - Terminal capex, including remaining payments for NZ fleet upgrade from last period and new terminal growth
 - Net Debt reduction to \$23m from \$24.9 at the half year

BUSINESS UPDATE

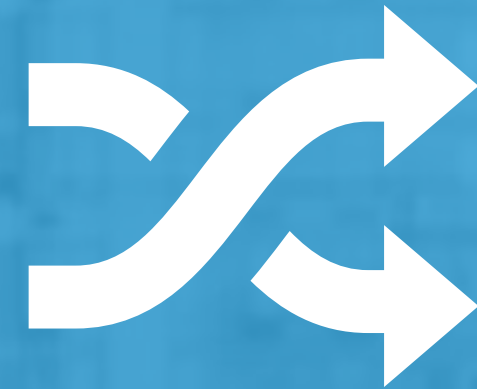
Australian acquiring

- Launched Nov 17
- Early indications show significant increase in margin:
 - Average gross margin / unit of A\$187 / month across initial fleet (up from previous average of A\$43)*
 - Note: small sample size of 276 merchants due to slow launch to ensure robustness of systems

Alipay

- Agreement signed with Alipay in March 18
- Market leading offering for QR payments alongside conventional payments on a single EFTPOS terminal - uses proprietary “SmartConnect” Platform
- First foray into extracting transactional acquiring revenue in our NZ fleet

*Due to small sample size, current average margin may not be indicative of future average margin which may be lower or higher than \$187 / unit / month



SUMMARY AND OUTLOOK

SUMMARY AND OUTLOOK

1. Smartpay offers a unique investment proposition as an ***established, profitable FinTech growth*** company:
 - i. An ***established annuity*** style business with a leading market position in the NZ market; ***and***
 - ii. A ***high growth*** opportunity into the large, opening Australian financial services market.
2. Transformation to a transactional financial services business underway in our Australian business with early evidence supporting the prospect of substantial increases in volume and margin.
3. Innovation led new product development offering value uplift in our large NZ base.
4. Targeting material growth in revenue, profit and cashflow in the current period and beyond.



Appendix – Financial Results

Statement of Comprehensive Income For the year ended 31 March 2018

	Note	Group	
		2018 \$'000	2017 \$'000
Continuing operations			
Revenue	5	20,347	20,892
Other income	6	16	864
Operating expenditure	7	(10,806)	(12,131)
Earnings before interest, tax, depreciation, share options expense, amortisation, impairments and unrealised foreign exchange		9,557	9,625
Depreciation and amortisation	7	(5,878)	(5,937)
Unrealised foreign exchange adjustments		-	87
Share option amortisation	22	(15)	(21)
Net finance (costs)	7	(1,307)	(1,429)
Impairment	7	(179)	(380)
		(7,379)	(7,680)
Profit before tax		2,178	1,945
Tax benefit	8	346	258
Profit for the year from continuing operations of owners		2,524	2,203
Other comprehensive income			
Foreign currency translation differences for foreign operations which may be reclassified subsequently to profit and loss (no tax effect)	23	(133)	(99)
Share based payments reversal which will not subsequently be reclassified to profit / (loss) (no tax effect)	22	559	461
Total comprehensive income of owners		2,950	2,565
Earnings / (losses) per share from continuing operations attributable to the equity holders of the company during the year	9		
Basic earnings per share		1.47 cents	1.29 cents
Diluted earnings per share		1.47 cents	1.29 cents

Statement of Financial Position As at 31 March 2018

	Note	Group	
		2018 \$'000	2017 \$'000
Current assets			
Cash and bank balances	10	2,396	2,896
Trade and other receivables	11	5,201	2,996
Finance receivable	13	100	98
Income tax receivable	20	13	173
Total current assets		7,710	6,163
Non-current assets			
Finance receivable	13	122	212
Property, plant and equipment	15	13,670	15,417
Intangible assets	16	10,250	7,913
Goodwill	17	14,772	14,772
Total non-current assets		38,814	38,314
Total assets		46,524	44,477
Current liabilities			
Trade payables and accruals	19	5,867	3,354
Derivative financial instruments	12	164	90
Borrowings	21	2,998	2,984
Total current liabilities		9,029	6,428
Non-current liabilities			
Borrowings	21	21,224	23,934
Derivative financial instruments	12	44	175
Deferred tax liabilities	18	212	331
Total non-current liabilities		21,480	24,440
Total liabilities		30,509	30,868
Net assets		16,015	13,609
Equity			
Share capital	22	53,454	53,998
Foreign currency translation reserve	23	143	276
Retained deficits		(37,582)	(40,665)
Total equity		16,015	13,609

Statement of Cash Flows For the year ended 31 March 2018

	Note	Group	
		2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers		20,506	20,512
Interest received		92	62
Payments to suppliers & employees		(10,870)	(12,673)
Interest paid		(1,426)	(1,521)
Tax refund from R&D grants		364	-
Net cash inflow from operating activities	24	8,666	6,380
Cash flows from investing activities			
Proceeds from disposal of assets		1	454
Purchase of terminal assets and other property, plant and equipment		(3,361)	(4,823)
Spend on intangible assets		(4,299)	(2,094)
Net cash outflow from investing activities		(7,659)	(6,463)
Cash flows from financing activities			
Proceeds from borrowings		290	2,580
Repayments of borrowings		(3,000)	(3,015)
Secured deposit		(239)	-
Net cash outflow from financing activities		(2,949)	(435)
Net decrease in cash equivalents		(1,942)	(518)
Add opening cash equivalents		2,896	3,414
Closing cash equivalents		954	2,896
<i>Reconciliation of closing cash equivalents to the balance sheet:</i>			
Cash and cash equivalents		954	2,896
Other bank balances		1,442	-
Closing cash and bank balances	10	2,396	2,896