Attention ASX Company Announcements Platform
Lodgement of Open Briefing®

Customers Limited
Unit 2, 148 Chesterville Road
Cheltenham, VIC, 3192

Date of lodgement: 19-Nov-2009

Title: Open Briefing®. Customers. MD & CFO on Strategy

Record of interview:

corporatefile.com.au
Customers Limited at its AGM today highlighted growth opportunities in servicing the ATM needs of financial institutions through the rebranding of existing Customer machines and through an ATM fleet outsourcing model. What is the potential market in this area, what level of capex would be required, and how would Customers fund it?

MD Tim Wildash
Throughout the world, banks are regularly outsourcing their ATM fleets to specialist providers. Even in Australia, two of the major banks have done so. Our interest in this area has been facilitated by our recently formed partnership with Nautilus Hyosung, one of the leading and most progressive manufacturers of financial institution ATMs in the world. We believe we're well positioned for this market: we're one of the largest independent ATM fleet owners in Australia; we have spare parts warehouses around the country; well trained, experienced technicians; an established helpdesk; and excellent back-office systems.

We're well progressed in rebranding up to 500 of our ATMs under our agreement with Bendigo & Adelaide Bank, and we hope to provide similar services to other financial institutions. We see our offer as a triple win: a win for the banks because they don't have to invest in an ATM infrastructure, a win for bank customers, who get access to more ATMs under their own bank's brand which provide a fee free service, and a win for us because our revenue increases.

The potential market is exciting. There are some 13,600 ATMs in Australia owned by financial institutions and there's growing recognition among financial institutions that updated, modern ATMs and the software that complements them are good for retaining and growing customers.

We don't expect any significant capex to be involved in these kinds of deals as we'd be rebranding machines in our existing fleet or providing outsourced ATMs under finance leasing arrangements with back to back contracts.

corporatefile.com.au
What was the rationale for forming the partnership you've just announced with Nautilus Hyosung and how important is it to your growth strategy?

MD Tim Wildash
The agreement gives us rights to distribute Nautilus Hyosung's latest financial institution ATMs in Australia. Nautilus Hyosung is a subsidiary of the US$2.3 billion market cap Korean listed Hyosung Group and supplies ATMs to leading financial institutions globally. Nautilus Hyosung has retail ATMs in Australia – we have about 1,000 of them already – but these are not servicing the financial institution ATM market, where machines are much more sophisticated – pleasingly however with our new agreement with Nautilus Hyosung this will change. The partnership is important because it gives us a big advantage in a new market – Nautilus Hyosung is at the forefront of self-serve banking and financial services hardware and software and will enable us to provide a premium service.

corporatefile.com.au
You've also identified the New Zealand market as a growth opportunity for Customers. What is the nature of your investment in this market to date and what is the anticipated cost of rolling out an ATM network there?

MD Tim Wildash
New Zealand is a wonderful opportunity. There are currently no independent ATMs there; only bank ATMs. The industry believes there's room for 2,200 retail ATMs in the NZ market, and we're targeting getting around half of that. Five of New Zealand's seven banks have agreed in principle to independent ATMs and we already have 65 ATMs processing their cards in a pilot program. Assuming the other two New Zealand banks agree to participate, we believe that in around two years or so the New Zealand market could account for 12 to 15 percent of our revenue.

New Zealand should be an attractive profit centre for us because we can use a lot of our existing Australian servicing and back-up infrastructure. Also, given five-year contracts with convenience, hospitality and other venues, similar to those we have in Australia, we'd expect returns from any investment in the roll-out to be higher than those we earn in Australia due to a lower cost base.

corporatefile.com.au
You also see earnings growth opportunities in internalising transaction processing, which you plan to implement in the current first half. What level of capex would be required to set up your own processing platform and what are the potential advantages of internal processing?

CFO Peter Campigli
There are three parts to processing an ATM transaction: driving, where the ATM talks to a driving platform that removes the identity of the ATM and sends a financial package to a switch; switching, where the transaction goes through to the acquiring bank; and acquisition. We have no plans to switch or acquire but we want to own the driving of our ATMs as it will be financially and operationally advantageous for us. Our driving is currently done by Calypso and by SPS.

We believe the capex will be around $2.5 million, with a pay-off of around 18-24 months to bring this activity in-house. Owning our own driver will also help to facilitate exciting growth opportunities with regards to services including EFTPOS, pre-paid cards, and online payments.

corporatefile.com.au
Can you comment on your evaluation framework for investment in growth opportunities and the rates of return you seek?

CFO Peter Campigli
Our assessment framework includes both tangible and intangible benchmarks. The tangibles are that any investment has to be EPS accretive and allow us to maintain our gearing at around 30 percent. The intangibles are around alignment with our strategic direction and whether we believe the investment will add shareholder value. We've built a tremendous infrastructure, and we want to ensure that any new investment leverages our existing capital base.

corporatefile.com.au
You've indicated that transaction volumes at your ATMs have recovered to around 90 percent of volumes prior to the introduction of Direct Charging in March, immediately after which transactions were down 12 to 13 percent. This suggests recovery is relatively slow. What implications does this have for your longer term growth prospects?

MD Tim Wildash
We think the reduction in transactions is a result of two factors – one being the global financial crisis and Direct Charging the other. A number of our major clients around Australia say there has been less foot traffic coming into their venues, and that will have contributed to some of the reduction in transactions, with Direct Charging being a component of the balance. We anticipate that with the economy showing gradual signs of recovery our merchants will experience a lift over time.

It's worth noting that we budgeted for a 15 percent fall in transactions, so between 9 to 10 percent is very sound. We're currently testing some improved signage and messaging on our ATMs to endeavour to attract cardholders, and the early indications from those initiatives are very encouraging. We don't believe the impact of Direct Charging on volumes materially affects our long-term growth prospects in any regard.

corporatefile.com.au
You've indicated that so far in the current year ending June 2010, your major metrics are tracking to budget, with the operating EBITDA growth Customers experienced in the second half of 2009 continuing. Nevertheless, you're seeing

upward pressure on rebates. What is driving this trend and given rebates account for about 33 percent of total operating costs, what is the potential impact on EBITDA growth?

CFO Peter Campigli
There's some upward pressure on rebates as merchants, at contract renewal, seek an increased share of our larger transaction fee pie. Rebates have increased by around 3 cents per withdrawal across the network which would add $1.4 million to $1.7 million to our opex over the course of a year.

We're comfortable with this trend, particularly given a relatively low level of contract renewals in the current financial year. We look to recoup the cost of capital of our ATMs over a five year contract; so in the event that a merchant renews their contract with the same ATM in place, our returns improve in the second term.

We have many levers that can add to additional profit and we continually review our strategy in reaction to these opportunities, one of which is pricing.

MD Tim Wildash
We note that some of our competitors are charging $2.20 to $2.80 per transaction, whereas we're charging $2 across the bulk of our network. Rises in the price of the service we provide would more than cover any pressure for higher rebates as we negotiate new contracts.

corporatefile.com.au
You're targeting double digit compound EBITDA growth in the period from 2010 to 2014 based around tight cost management and capitalising on your growth opportunities. What are the main risks to achieving your growth target and what might be the drivers of potential earnings upside?

MD Tim Wildash
There are risks around transaction levels and push-back from consumers on pricing increases but we're confident we can manage these given our much stronger positioning under Direct Changing. We're very optimistic we can continue to grow over the years ahead: payments services is a dynamic space and as an industry leader we're well positioned to provide cost effective services to an expanding client base.

corporatefile.com.au
Thank you Tim and Peter.

For more information about Customers, visit www.customersatm.com.au or call Rohan Martin, Manager Corporate Affairs, Customers Ltd, on (+61 3) 9090 4745.