

28 April 2016

ASX Market Announcements  
Australian Securities Exchange  
20 Bridge Street  
SYDNEY NSW 2000

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## APPENDIX 4C – Q3FY16 QUARTERLY CASH FLOW STATEMENT

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Please find attached the Appendix 4C “Quarterly Report” for Emerchants Limited (**Company** or **Group**) for the quarter (**Q3FY16**) and for the period ended 31 March 2016 (**YTDFY16**). The following are additional explanatory notes to be read in conjunction with the Report.

### Strong increase in operating metrics for Q3FY16 and YTDFY16

#### *Australian Reloadable segment*

The Australian Reloadable segment experienced strong growth across all operating metrics with Total funds loaded up 78%, Transactions up 33% and Stored Value up 28% over the prior quarterly comparative period.

- Our reloadable online wagering clients (Ladbrokes, Sportsbet, Crownbet - launched August 2015 and bet365 - launched August 2015), are performing in line with our expectations and are underpinning the growth in the segment. William Hill launched their winnings card program on 31 March 2016. The imminent launch of our EachWay® cash loads product in early Q4 and the launch of the William Hill payment card are exciting milestones to achieve, overcoming earlier launch delays. These launches together with the full year impacts of growth in online wagering clients will result in significant continued growth in this segment.
- Outside of the online wagering space, Ingogo and CC Investment Group (Cash Converters franchisee) are performing well but we continue to see the broader online consumer lending segment struggle due to increased regulatory oversight. As outlined in the 1HFY16 investor presentation, we see the margin declines in our lending segment as more systemic, versus being related to timing.

We have converted Total funds loaded to revenue in this segment at 94bps for the financial YTD. This has improved on the half year as expected, but remains lower than the prior year due to less establishment fees (plastic sales and setup fees) being earned in the current financial year and lower Total funds loaded to revenue from non wagering clients (Ingogo, Nimble and Cash Converters) as these programmes generate revenue on a fixed fee basis as opposed to a Total funds loaded basis and presently generate over half the funds loaded in this segment. We are focusing our efforts on generating additional establishment fee in the 4<sup>th</sup> quarter and executing on this will benefit the ratio further.

#### *Australian Non-Reloadable segment*

Q3 is traditionally a relatively slow quarter for gift cards following on from the busy Q2 Christmas quarter and our non-reloadable business has performed as expected in the quarter. At 31 March 2016 we had a carried forward breakage accrual relating to the Australian Non-Reloadable segment of \$1.58M (vs \$0.77M at YTDFY15), all of which will convert to cash within the next 12 months. Volume loads and other key metrics are in line with management expectations and we have converted Total funds loaded to revenue in this segment at 300bps for the financial YTD, in line with our expectations.

### *European Non-Reloadable segment*

As with the Australian non reloadable segment, Q3 is traditionally a relatively quiet quarter in Europe and the Q3FY16 results for Europe were negatively impacted by the depreciation in the Sterling relative to the Australian dollar (circa 12% versus Q2FY16) as BREXIT concerns impact Sterling FX rates ahead of the 23 June vote. Despite this, the growth was strong with Total funds loaded up 11%, Transactions up 9% and Stored Value up 38% over the prior quarterly comparative period. We will continue to drive growth from the addition of new shopping centre malls to existing customers, new product features and new clients including Didex that we launched in March 2016.

At 31 March 2016 we had a carried forward breakage accrual relating to the European Non-Reloadable segment of \$5.24M (vs \$0M at 1HFY15), all of which will convert to cash within the next 12 months.

We have converted Total funds loaded to revenue in this segment at 600bps for the financial YTD, which is ahead of our expectations.

### *European Reloadable segment*

On 30 March 2016 we announced we were successful in signing bet365 as our inaugural European online wagering customer. We are in numerous discussions with other European based operators to offer similar products. There was no contribution from this agreement in the current quarter and bet365 will not launch prior to the end of the financial year, but there may be establishment fees generated from this segment by the end of the financial year.

**Table 1: Emerchants key operating metrics**

A\$ Thousands	Q3FY15			FY15			Q3FY16			FY16		
	Australia	Europe	Group	Australia	Europe <sup>1</sup>	Group	Australia	Europe <sup>1</sup>	Group	Australia	Europe <sup>1</sup>	Group
A\$ Total Funds loaded [2]	<b>94,052</b>	<b>27,856</b>	<b>121,908</b>	<b>252,831</b>	<b>65,081</b>	<b>317,912</b>	<b>145,803</b>	<b>30,928</b>	<b>176,731</b>	<b>414,963</b>	<b>146,223</b>	<b>561,186</b>
% Change on pcp	96%	n/a	174%	97%	n/a	143%	55%	11%	45%	64%	125%	77%
Reloadable	67,832	0	67,832	168,404	0	168,404	120,573	0	<b>120,573</b>	326,592	0	<b>326,592</b>
1% Change on pcp	242%	n/a	242%	215%	n/a	215%	78%	n/a	78%	94%	n/a	94%
Non-Reloadable / Gift	26,220	27,856	54,076	84,427	65,081	149,508	25,230	30,928	<b>56,158</b>	88,371	146,223	<b>234,594</b>
% Change on pcp	11%	n/a	134%	17%	n/a	95%	(4%)	11%	4%	5%	125%	57%
No. key transactions[3]	<b>1,973</b>	<b>1,047</b>	<b>3,020</b>	<b>5,651</b>	<b>1155</b>	<b>6,806</b>	<b>2,633</b>	<b>1,139</b>	<b>3,771</b>	<b>7,860</b>	<b>2,538</b>	<b>10,398</b>
% Change on pcp	78%	n/a	113%	69%	n/a	89%	33%	9%	25%	39%	120%	53%
Reloadable	1,001	0	1,001	2,522	0	2,522	1,464	0	<b>1,464</b>	3,889	0	<b>3,889</b>
% Change on pcp	263%	n/a	263%	239%	n/a	239%	46%	n/a	46%	54%	n/a	54%
Non-Reloadable / Gift	972	1,047	2,019	3,129	1155	4,284	1,168	1,139	<b>2,307</b>	3,970	2,538	<b>6,508</b>
% Change on pcp	31%	n/a	75%	25%	n/a	50%	20%	9%	14%	27%	120%	52%
No. active accounts > A\$0 [4]	<b>641</b>	<b>814</b>	<b>1,455</b>	<b>641</b>	<b>814</b>	<b>1,455</b>	<b>674</b>	<b>1,210</b>	<b>1,884</b>	<b>674</b>	<b>1,210</b>	<b>1,884</b>
% Change on pcp	15%	n/a	175%	15%	n/a	175%	5%	49%	30%	5%	49%	30%
Reloadable	112	0	112	112	0	112	139	0	<b>139</b>	139	0	<b>139</b>
% Change on pcp	120%	n/a	120%	120%	n/a	120%	24%	n/a	24%	24%	n/a	24%
Non-Reloadable / Gift	529	814	1,343	529	814	1,343	535	1,210	<b>1,745</b>	535	1,210	<b>1,745</b>
% Change on pcp	6%	n/a	179%	6%	n/a	179%	1%	49%	30%	1%	49%	30%
A\$ Stored Value [5]	<b>41,444</b>	<b>35,702</b>	<b>77,146</b>	<b>41,444</b>	<b>35,702</b>	<b>77,146</b>	<b>53,071</b>	<b>49,138</b>	<b>102,209</b>	<b>53,071</b>	<b>49,138</b>	<b>102,209</b>
% Change on pcp	47%	n/a	207%	47%	n/a	207%	28%	38%	32%	28%	38%	32%
Reloadable	17,559	0	17,559	17,559	0	17,559	19,916	0	<b>19,916</b>	19,916	0	<b>19,916</b>
% Change on pcp	109%	n/a	109%	66%	n/a	109%	13%	n/a	13%	13%	n/a	13%
Non-Reloadable / Gift	23,885	35,702	59,587	23,885	35,702	59,587	33,155	49,138	<b>82,293</b>	33,155	49,138	<b>82,293</b>
% Change on pcp	24%	n/a	243%	20%	n/a	243%	39%	38%	38%	39%	38%	38%

<sup>1</sup>Our European operations produce operating metrics in British Pounds and Euros and these are reported in Australian dollars at the average rate of the quarter for Total Funds loaded and the closing rate at the end of the quarter for Stored Value.

<sup>2</sup>Total funds loaded onto prepaid accounts – total of initial and subsequent loads. This excludes any funds that clients have deposited with the Companies ADI and not loaded onto a prepaid account.

<sup>3</sup>Key transactions constituting activity such as redemption or attempted redemption of prepaid value.

<sup>4</sup>Number of active prepaid accounts measured at the end of the period with a balance greater than \$0.00. Accounts that have expired, been made inactive or have no funds associated with them are excluded.

<sup>5</sup>Total value on deposit for the prepaid portfolio measured at the end of the period. Represents unredeemed stored value that is available for the account holder to redeem.

## Cash outflows from operations

Both the quarter and the year to date has seen a significant improvement in operational cashflows compared to the prior year. In addition to the aforementioned breakage accrual, a summary of key cashflow movements are outlined below:

- Total funds loaded up 45% on the prior quarterly comparative period (77% YTD) and have been converted to revenue at an average rate across the group of 280 bps for the full YTD (270bps FY15 YTD).
- The reported cash inflows for the current period include our research and development credit of \$1.0M for FY15.
- As mentioned in the previous Appendix 4C “Quarterly Report” there has been an increase in expenditure on marketing, travel and legal expenses during the year relating to the expansion of our reloadable sales efforts in Europe. We would expect these outflows to remain relatively high until we have signed up a number of European online wagering clients and we continue to see significant opportunities and will be providing more information to shareholders on our progress at the appropriate time.
- In Australia we have incurred an increase in expenditure in the current quarter related to the marketing of our imminent EachWay® cash loads launch and beyond this we would expect to incur an additional \$100k on marketing efforts to increase the profile of the product in the distribution outlets over the next two quarters.

## Cash outflows from investing activities

The cash outflow reflected in Q2FY16 relates to the cash payment for the development of our EachWay® product that a number of online wagering clients have signed up to and which we expect to launch in early Q4. At this stage we have contracts signed with Ladbrokes, William Hill and bet365 and we continue our discussions with other gambling operators. We expect to incur additional capital expenditure of circa \$0.2M in the next 6 months to enable digital scanning of the EachWay® cash loads product via a mobile phone in distribution outlets. The mobile phone “in-app” solution will be additional to the card-based solution.

## Cash inflows from financing activities

The net inflows from financing activities relate to the exercise of a small amount of employee share options in Q3.

The Directors are satisfied that the Company has adequate funding, that its current balance sheet is sound, and that the Company complies with Listing Rule 12.2.

*Table 2: Quarterly cash flow summary*

<b>A\$ Thousands</b>	<b>Q3FY15</b>	<b>FY15</b>	<b>Q3FY16</b>	<b>FY16</b>
	Quarter	Year-to-Date	Quarter	Year-to-Date
<b>Operations</b>	<b>637</b>	<b>(759)</b>	<b>1,132</b>	<b>1,440</b>
<i>% Change on prior comparative period</i>	<i>166%</i>	<i>21%</i>	<i>78%</i>	<i>290%</i>
<b>Investing</b>	<b>(272)</b>	<b>(11,379)</b>	<b>(93)</b>	<b>(627)</b>
<i>% Change on prior comparative period</i>	<i>(281%)</i>	<i>(1808%)</i>	<i>66%</i>	<i>94%</i>
<b>Financing</b>	<b>-</b>	<b>13,295</b>	<b>49</b>	<b>105</b>
<i>% Change on prior comparative period</i>	<i>N/A</i>	<i>188%</i>	<i>100%</i>	<i>(99%)</i>
<b>Total inflows (outflow)</b>	<b>365</b>	<b>1,157</b>	<b>1,088</b>	<b>918</b>
Opening Cash	5,288	4,496	4,094	4,264
Movement for the period	365	1,157	1,088	918
<b>Closing Cash</b>	<b>5,653</b>	<b>5,653</b>	<b>5,182</b>	<b>5,182</b>

**-ENDS-**

For more information, please contact:

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# Appendix 4C

## Quarterly report for entities admitted on the basis of commitments

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10

Name of entity

Emerchants Limited

ABN

93 104 757 904

Quarter ended ("current quarter")

31 March 2016

### Consolidated statement of cash flows

<b>Cash flows related to operating activities</b>	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from customers	4,659	11,369
1.2 Payments for:		
(a) staff costs	(2,122)	(5,609)
(b) advertising and marketing	(9)	(131)
(c) leased assets	-	-
(d) other working capital	(1,639)	(3,267)
(e) accounting and administrative services	(444)	(1,168)
(f) acquisition-related expenses	-	-
(g) exploration expenditure	-	-
(h) software and systems infrastructure	(217)	(619)
(i) risk and compliance	(88)	(338)
(j) rent and utilities	(135)	(395)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	175	645
1.5 Interest and other costs of finance paid	(45)	(44)
1.6 Income taxes paid	-	-
1.7 Other	997	997
<b>Net operating cash flows</b>	<b>1,132</b>	<b>1,440</b>

+ See chapter 19 for defined terms.

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

	Current quarter \$A'000	Year to date (9 months) \$A'000
1.8 Net operating cash flows (carried forward)	1,132	1,440
<b>1.9 Cash flows related to investing activities</b>		
Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property/intangible assets	-	-
(d) physical non-current assets	(81)	(610)
(e) other non-current assets	(12)	(17)
(f) cash included on consolidation of subsidiary	-	-
<b>1.10 Proceeds from disposal of:</b>		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other	-	-
	-	-
<b>Net investing cash flows</b>	<b>(93)</b>	<b>(627)</b>
<b>1.14 Total operating and investing cash flows</b>	<b>1,039</b>	<b>813</b>
<b>Cash flows related to financing activities</b>		
1.15 Proceeds from issues of shares, options, etc.	49	105
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other – Share Issue costs	-	-
<b>Net financing cash flows</b>	<b>49</b>	<b>105</b>
<b>Net increase (decrease) in cash held</b>	<b>1,088</b>	<b>918</b>
1.21 Cash at beginning of quarter/year to date	4,094	4,264
1.22 Exchange rate adjustments to item 1.20	-	-
<b>1.23 Cash at end of quarter</b>	<b>5,182</b>	<b>5,182</b>

+ See chapter 19 for defined terms.

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	330
1.25	Aggregate amount of loans to the parties included in item 1.11	Nil

1.26 Explanation necessary for an understanding of the transactions

Payments to Executive Directors, Non-Executive Directors and Associates of the directors is broken down as follows:	
<u>\$000's</u>	
Directors and Executive Directors fees	301
Superannuation	29
Associates of the directors	-
<b>Total</b>	<b>330</b>

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

Transactions which occurred during quarter ended 31 March 2016:
N/A

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A
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+ See chapter 19 for defined terms.

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

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**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

	Amount available \$'000	Amount used \$'000
3.1 Loan facilities	Nil	Nil
3.2 Credit standby arrangements	Nil	Nil

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$'000	Previous quarter \$'000
4.1 Cash on hand and at bank	5,182	3,297
4.2 Deposits at call	-	797
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.23)</b>	<b>5,182</b>	<b>4,094</b>

**Acquisitions and disposals of business entities**

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a)) N/A
5.1 Name of entity	N/A	N/A
5.2 Place of incorporation or registration	N/A	N/A
5.3 Consideration for acquisition or disposal	N/A	N/A
5.4 Total net assets	N/A	N/A
5.5 Nature of business	N/A	N/A

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+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:

Director

Date: 28 April 2016

Print name: Tom Cregan

## Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, AASB 107: Statement of Cash Flows apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.