

29 July 2016

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

APPENDIX 4C – Q4FY16 QUARTERLY CASH FLOW STATEMENT

Please find attached the Appendix 4C “Quarterly Report” for Emerchants Limited (**Company** or **Group**) for the quarter (**Q4FY16**) and for the period ended 30 June 2016 (**YTDFY16**). The following are additional explanatory notes to be read in conjunction with the Report.

The Company generated positive cash flows from operations of \$0.58M in the quarter, reflecting a strong end to the financial year. This result was an increase of 42% on the operating cash flow in the prior corresponding period. The Q4FY16 results included one month of contribution from our North American business but this was largely offset by \$456k in one time acquisition related costs that were expensed in the quarter, largely comprising of professional fees and the costs of a hedging facility which we entered into given the purchase price was payable in US dollars.

It is worth noting to shareholders that this hedging facility achieved a purchase price in Australian dollars that was \$2.2M lower at completion than when we entered into the definitive asset purchase agreement with Store Financial Services.

At the end of the financial year the Company is well positioned with respect to cash. This quarter was our third consecutive quarter with positive operating cash flows and as a result of our recent capital raise to fund the acquisition of Store Financial Services in North America we had \$27M in net cash. We also ended the financial year with a breakage accrual, which will largely convert to cash in the next 12 months, of \$8.8M (FY15: \$3.9M), an increase of 125% over the prior corresponding period.

Together, cash and breakage accrual totalled \$35.8M and provides the Company with a solid balance sheet and being able to pursue a range of growth oriented investments and opportunities.

We will provide further financial information on the release of our FY16 audited results on August 25th 2016.

Operating metrics for Q4FY16 and YTDFY16 by Segment

European Non-Reloadable segment

Full year loads are up 99% on FY15. This growth rate factors in 12 months of contribution versus 7 months in the prior year but we have experienced strong year on year organic growth in existing programs and contributions from recently launched non-mall programs and new mall programs (Hammersons, MFI and a number of smaller new mall programs in France, Italy, Portugal and Germany). Our sales pipeline in this segment is robust.

We have a number of programs set to launch shortly including TBS Europe (fuel card), Edge Loyalty (promotional cash back cards) and Bitcard virtual open loop program to be distributed through the large Bitcard retail distribution channels in Italy, consisting of over 700 locations. In addition to these specific launches, we have a number of new product enhancements we intend to roll out shortly and so we are confident of continued growth in this segment. Furthermore, with the bulk of our growth originating in continental Europe, this has mitigated the recent depreciation in Sterling.

We have converted Total funds loaded to revenue in this segment at 6.7% for the financial year and a gross margin of 76%, in line with our expectations and prior years' experience.

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At 30 June 2016 we had a carried forward breakage accrual relating to the European Non-Reloadable segment of \$5.0M (vs \$2.2M at FY15), all of which will convert to cash within the next 12 months.

European Reloadable segment

On 30 March 2016 we announced we were successful in signing a cornerstone European online wagering customer. We have invoiced an establishment fee in the quarter but the programme has yet to launch. We expect to launch prior to December 2016. We are in numerous discussions with other European based operators to offer similar products.

Australian Reloadable segment

The Australian Reloadable segment experienced strong growth across all operating metrics with Total funds loaded up 43% over the prior quarterly comparative period. We launched our fifth program in market with William Hill late in the quarter and are confident of continued organic growth in this segment going forward. Outside of the online wagering space and as previously advised to shareholders in our first half update, the consumer lending segment continued to soften under various regulatory pressures, and both our loaded funds and revenue contribution were down significantly year on year. We believe this is likely to be a systemic decline and aren't expecting a recovery in volumes in FY17.

Our gross margin has improved in FY16 to 77% (FY15: 64%) due to the fact that we had lower establishment fees (predominantly plastic cards) in FY16, which we ordinarily generate at lower gross margins as we outsource the production of the plastic cards.

Australian Non-Reloadable segment

Q3 and Q4 are traditionally relatively slow quarters for gift cards following on from the busy Q2 Christmas quarter and our non-reloadable business has performed as expected in the quarter and for the year. The full year loads are up 5% on FY15 and we have converted Total funds loaded to revenue in this segment at 3.7% for the financial year and a gross margin of 88%, in line with our expectations and prior years' experience.

At 30 June 2016, we have a carried forward breakage accrual relating to the Australian Non-Reloadable segment of \$3.4M (vs \$1.7M at YTD FY15), all of which will convert to cash within the next 12 months.

Table 1: Emerchants key operating metrics

A\$ Millions	Q4FY15 Quarter				FY15 Year-to-Date				Q4FY16 Quarter				FY16 Year-to-Date			
	Australia	Europe ¹	Americas	Group	Australia	Europe ¹	Americas	Group	Australia	Europe ¹	Americas	Group	Australia	Europe ¹	Americas	Group
A\$ Total Funds	106.02	25.59	0.00	131.60	356.85	90.67	0.00	447.52	151.61	33.91	21.75	207.26	566.57	180.13	21.75	768.45
<i>% Change on pcp</i>	107%	n/a	n/a	157%	112%	n/a	n/a	166%	43%	33%	n/a	57%	59%	99%	n/a	72%
Reloadable	84.20	0.00	0.00	84.20	252.61	0.00	0.00	252.61	130.34	0.00	0.00	130.34	456.93	0.00	0.00	456.93
<i>1% Change on pcp</i>	189%	n/a	n/a	189%	210%	n/a	n/a	210%	55%	n/a	n/a	55%	81%	n/a	n/a	81%
Non-Reloadable / Gift	21.82	25.59	0.00	47.40	104.24	90.67	0.00	194.91	21.27	33.91	21.75	76.93	109.64	180.13	21.75	311.52
<i>% Change on pcp</i>	-1%	n/a	n/a	115%	20%	n/a	n/a	124%	-2%	33%	n/a	62%	5%	99%	n/a	60%
No. active accounts > A\$0 [3]	0.65	0.81	0.00	1.45	0.65	0.81	0.00	1.45	0.68	1.19	3.52	5.38	0.68	1.19	3.52	5.38
<i>% Change on pcp</i>	21%	n/a	n/a	171%	21%	n/a	n/a	171%	4%	47%	n/a	270%	4%	47%	n/a	270%
Reloadable	0.13	0.00	0.00	0.13	0.13	0.00	0.00	0.13	0.18	0.00	0.00	0.18	0.18	0.00	0.00	0.18
<i>% Change on pcp</i>	156%	n/a	n/a	156%	156%	n/a	n/a	156%	45%	n/a	n/a	45%	45%	n/a	n/a	45%
Non-Reloadable / Gift	0.52	0.81	0.00	1.33	0.52	0.81	0.00	1.33	0.49	1.19	3.52	5.20	0.49	1.19	3.52	5.20
<i>% Change on pcp</i>	7%	n/a	n/a	172%	7%	n/a	n/a	172%	-5%	47%	n/a	291%	-5%	47%	n/a	291%
A\$ Stored Value [4]	41.99	33.34	0.00	75.33	41.99	33.34	0.00	75.33	46.65	44.79	128.18	219.62	46.65	44.79	128.18	219.62
<i>% Change on pcp</i>	53%	n/a	n/a	175%	53%	n/a	n/a	175%	11%	34%	n/a	192%	11%	34%	n/a	192%
Reloadable	18.87	0.00	0.00	18.87	18.87	0.00	0.00	18.87	22.85	0.00	0.00	22.85	22.85	0.00	0.00	22.85
<i>% Change on pcp</i>	125%	n/a	n/a	125%	125%	n/a	n/a	125%	21%	n/a	n/a	21%	21%	n/a	n/a	21%
Non-Reloadable / Gift	23.12	33.34	0.00	56.46	23.12	33.34	0.00	56.46	23.80	44.79	128.18	196.77	23.80	44.79	128.18	196.77
<i>% Change on pcp</i>	22%	n/a	n/a	197%	22%	n/a	n/a	197%	3%	34%	n/a	249%	3%	34%	n/a	249%

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¹Our 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. Our North American operations produce operating metrics in United States Dollars and Canadian Dollars 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.

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

³Number 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.

⁴Total 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 have seen a significant improvement in operational cashflows compared to the prior year (+674%) and prior comparative quarter (+42%). In addition to the aforementioned breakage accrual, a summary of key operating cashflow movements is outlined below:

- Total funds loaded up 57% on the prior quarterly comparative period (72% full year) and have been converted to revenue at an average rate across the group of 3.0% for FY16 (3.2% FY15) at a gross margin of 78% for FY16 (78% 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. We are also serving over 600 customers in 13 countries so it is logical to expect an increase in cash outflows for these activities, within the parameters of internally approved budgets.
- In Australia we have incurred an increase in expenditure in the current quarter related to launch marketing costs for our EachWay® cash loads launch and an ASX announcement has recently been made with respect to this product launching in market. Beyond this we would expect to incur an additional \$100k on marketing efforts to increase the profile of the product in the distribution outlets before the end of the calendar year. We consider this a relatively small investment relative to our expectations for this product.

Cash outflows from investing activities

The cash outflow reflected in Q4FY16 relates to:

- Funds paid for the North American business acquisition. The total purchase price for the business was US\$35.0M for which we received the assets of the business and an additional US\$3.0M in net assets on acquisition date. We agreed to pay the vendors US\$26,701,539 in cash with the remaining amount in EML shares at \$1.45 per share (being the share price that the placement was undertaken at). To fund the US\$26,701,539, we hedged the US\$ at an average rate of 0.76104 and therefore the cash outflow was **A\$35,085,493**. Had we not hedged the US\$ payable and paid the spot price on the settlement day, the purchase price would have cost us an additional A\$2.2M.
- The cost of hedging the US\$ payable amounted to A\$214k and is shown separately in the investing activities.
- Included in the US\$3.0M in net assets on the acquisition date, was cash of US\$1.0M (A\$ 1.4M). That has been disclosed separately in the investing activities as cash acquired on the acquisition of the business combination.

During the financial year we incurred capital expenditure predominantly for the development of our EachWay® product. We expect to incur additional capital (non-marketing) expenditure of circa \$0.2M prior to December 2016.

Cash inflows from financing activities

The net inflows from financing activities in the current quarter relate to the receipt of cash of \$58,507,500 from a placement of 40,350,000 fully paid ordinary shares, issued at a price of \$1.45 to institutional and sophisticated investors, less capital raising costs of \$3,239,905. The shares were primarily issued to fund the North American business acquisition.

As described in the investing activities, we paid cash of \$35,085,493 to the vendors plus hedging costs of \$214k. We also incurred transaction costs of \$242k disclosed in operating activities, described above.

The other inflows of cash relate to the exercise of a small amount of employee share options in Q3 and Q4.

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

A\$ Thousands	Q4FY15	FY15	Q4FY16	FY16
	Quarter	Year-to-Date	Quarter	Year-to-Date
Operations	409	(352)	580	2,020
<i>% Change on prior comparative period</i>	<i>153%</i>	<i>89%</i>	<i>42%</i>	<i>674%</i>
Investing	(1,798)	(13,175)	(33,928)	(34,555)
<i>% Change on prior comparative period</i>	<i>(1,535%)</i>	<i>(1,683%)</i>	<i>1,786%</i>	<i>162%</i>
Financing	-	13,295	55,276	55,381
<i>% Change on prior comparative period</i>	<i>n/a</i>	<i>n/a</i>	<i>100%</i>	<i>317%</i>
Total inflows (outflow)	(1,389)	(232)	22,928	23,846
Opening Cash	5,653	4,496	5,182	4,264
Movement for the period	(1,389)	(232)	21,928	22,846
Foreign Exchange Movement			(126)	(126)
Closing Cash	4,264	4,264	26,984	26,984

-ENDS-

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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")

30 June 2016

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers	5,373	16,757
1.2 Payments for:		-
(a) staff costs	(2,449)	(8,056)
(b) advertising and marketing	(64)	(195)
(c) leased assets	(82)	(82)
(d) other working capital	(797)	(4,132)
(e) accounting and administrative services	(476)	(1,644)
(f) acquisition-related expenses *	(242)	(242)
(g) exploration expenditure	-	-
(h) software and systems infrastructure	(589)	(1,208)
(i) risk and compliance	(155)	(493)
(j) rent and utilities	(156)	(552)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	234	932
1.5 Interest and other costs of finance paid	(10)	(55)
1.6 Income taxes paid	(7)	990
1.7 Other	-	-
Net operating cash flows	580	2,020

+ 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 (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	580	2,020
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	(35,085)	(35,085)
(b) equity investments	-	-
(c) intellectual property/intangible assets	-	-
(d) physical non-current assets	(29)	(639)
(e) other non-current assets	17	-
(f) cash included on consolidation of subsidiary	1,383	1,383
(g) financial instrument	(214)	(214)
1.1 Proceeds from disposal of:		
(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	-	-
	-	-
Net investing cash flows	(33,928)	(34,555)
1.14 Total operating and investing cash flows	(33,348)	(32,535)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	58,516	58,621
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.2 Other – Share Issue costs	(3,240)	(3,240)
Net financing cash flows	55,276	55,381
Net increase (decrease) in cash held	21,928	22,846
1.21 Cash at beginning of quarter/year to date	5,182	4,264
1.22 Exchange rate adjustments to item 1.20	(126)	(126)
1.23 Cash at end of quarter	26,984	26,984

+ 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	251
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:

\$000's

Directors and Executive Directors fees	236
Superannuation	15
Associates of the directors	-
Total	251

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 30 June 2016:

- Issue of 7,903,710 shares to the vendors of Store Financial LLC as part consideration for purchase of Store Financial LLC and its subsidiary Store Financial of Canada Ltd. The remainder of the consideration was paid in cash and included in note 1.9(a) above.

- 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

+ See chapter 19 for defined terms.

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

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	8,222	5,182
4.2 Deposits at call	18,762	-
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	26,984	5,182

Acquisitions and disposals of business entities

	Acquisitions <i>(Item 1.9(a))</i>	Disposals <i>(Item 1.10(a))</i> N/A
5.1 Name of entity	Store Financial Services LLC and its subsidiary Store Financial Services of Canada Ltd	N/A
5.2 Place of incorporation or registration	N/A	N/A
5.3 Consideration for acquisition or disposal	46,545,873	N/A
5.4 Total net assets	41,438,439	N/A
5.5 Nature of business	N/A	N/A

+ 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: 29 July 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.