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ASX Market Announcements
20 Bridge Street
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Investor Presentation - Transcript

EML Payments Limited (ASX: EML) is pleased provide investors with the attached transcript of a briefing to shareholders and the investment community held on Wednesday 16 February 2021 following the release of the FY22 Interim results

Investors can also access a recording of the webcast via the following link:
https://www.openbriefing.com/OB/EML-Payments-Limited/2022/2/16/EML-FY22-Interim-Results-Presentation/4552.aspx

About EML Payments Limited

EML provides an innovative payment solutions platform, helping businesses all over the world create awesome customer experiences. Wherever money is in motion, our agile technology can power the payment process, so money can be moved quickly, conveniently and securely. We offer market-leading programme management and highly skilled payments expertise to create customisable feature-rich solutions for businesses, brands and their customers.

Come and explore the many opportunities our platform has to offer by visiting us at: EMLPayments.com

This ASX announcement has been authorised for release by the Company Secretary.

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Company: EML Payments Ltd
Title: EML FY22 Interim Results Presentation
Date: 16 February 2022
Time: 10:00 AEDT

Start of Transcript

Tom Cregan: Good morning and welcome to the first half results for the financial year 2022. As you know, my name is Tom Cregan, MD and CEO. I'm joined by Rob Shore, our CFO. We're also joined today in the room by David Curneen, our Chief Operating Officer and Ryan Chellingworth, Head of Treasury if there are any questions after this that we need to fire to Ryan or David.

Jumping to Slide 4, our gross debit volume has grown significantly in the half to $31.6 billion. Courtesy of our Sentenial Nuapay acquisition, we now operate in 32 countries around the world.

Slide 6 has our headline numbers and key takeaways. As I mentioned, our gross debit volumes were up 209% to $31.6 billion which drove a 20% increase in revenue to $114.4 million.

Our underlying EBITDA of $26.9 million was 4% behind the prior comparative period, which is a reasonable result when considering an increase in overheads in our European business of approximately $6 million particularly in risk and compliance, the impact of Omicron on our European malls business in December which drove lower foot traffic in sales than we would have liked, negative net interest revenue of $2.7 million versus the prior comparative period associated with negative interest rates on our euro-denominated float, establishment fees which were $2.4 million lower than the prior comparative period and we are implementing our remediation plan with the Central Bank of Ireland which obviously required significant resources and management focus.

So to grow revenue at 20% in the midst of a regulatory investigation talks to the revenue diversity of the business and our ability to generate revenue growth from existing customers.

Negative interest rates on our European float are outside of our control, but it's not taking a massive leap to say that, if we hadn't seen the impact on Omicron in the malls segment and we'd been able to sign new contracts in Europe and generate a similar establishment fee, our revenue growth would have been closer to 25% and our EBITDA would have been north of $30 million

In the second half of the year, we would expect to see a recovery in revenue growth rate and gross margins as we sign and launch new programs in Europe. We were able to sign and launch 22 programs in December but, from an establishment fee perspective, they were programs predominantly signed in the prior financial year. So the establishment fees were in the prior financial year and not in this first half.

We'll talk about interest rates later in the presentation but the two recent target cash rate increases, put through by the Bank Of England, is worth more than $2.5 million per annum to us straight off the bat, offsetting a large part of the negative net interest that we experienced in the first half. With $2.7 billion in float as at 21 December, we are very well placed to benefit from an increasing rate environment globally.

We start to migrate our two largest European customers across to the TRACE platform which will commence in April. We expect to realise savings of $3 million in FY23. So that's starting to deliver against the synergy benefits that we originally outlined when we acquired PFS.

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In terms of overhead, it was the largest increase in a half that we have seen but this was driven largely by our remediation plan, increases in our risk and compliance costs and three months of overhead from Sentenial, post our acquisition on the 1st of October. The remediation expenditure will cease once the project is completed by the end of June and won't be carried into FY23.

We also said last year that we expected our compliance costs to increase by an annual $5 million per annum due to more resources, but we then expect future cost growth to be more in line with our historical trends, rather than looking at FY22 first half and predicting that overhead growth on a go-forward basis.

I'd also make the point that our ability to launch programs in Europe in December and submit new contracts for approval has come about in part because of our commitment to the remediation plan. So the priority for us was not about expense management in the half but making the investments needed, hiring senior executives to the team and employing independent directors for the PCSIL Board.

Our cash at bank fell to $86.2 million - and Rob will take you through this in his section – but $28 million was injected back into our FCA safeguarded accounts in August last year, which we advised the market about at the time, and $16 million of cash was used for the Sentenial acquisition. So there is $44 million of outflows on those two items alone. We remain very well capitalised with a strong balance sheet and cash position.

On slide 7 we've got our mall volumes outlined. Gross debit volume was up 26% on the prior comparative period and was up 6% on the FY20 Christmas season which was the last non-COVID impacted year. But it was below our expectations. We thought, based on our growth rate leading into the key Christmas week without the impact of Omicron, we would have generated another $100 million or so in GDV which would have corresponded to an approximate EBITDA lift of around $3.6 million. Of course, it is difficult to be prescriptive about that because proving causality solely on Omicron is hard to do but that's our view. Certainly looking at lower foot traffic and restrictions in the UK and Germany as two key markets. So that is our view and the timing of it was unfortunate, obviously for the second year in a row.

On page 8, as shareholders would know, we closed our acquisition of Sentenial on 1 October and moved into the open banking and account-to-account payment industry in Europe which was a fundamental part of project Accelerator and becoming a digital payments business. We see this as a long-term driver of growth and value for the Company. If shareholders have followed recent capital raises in the industry, particularly from TrueLayer and GoCardless which raised $312 million week before last, they would see significant private equity investments into open banking in Europe because they also see the long-term growth and value opportunity. That's the same opportunity that we need to now execute on.

Since acquiring Sentenial, we've implemented our integration plan and agreed our $5 million growth investment that we previously outlined to shareholders. Our open banking gross debit volume is growing at 30% and will be supported by some of the new business wins outlined on this slide.

As investors should recall, given historically limited capital as a private business, Nuapay employs a sales model that works with larger enterprise distribution partners, hence customers such as Citigroup, World Pay and Elavon and Visa Cybersource is another such partner. So FedEx, The Economist and Fiat Chrysler have come from that partnership. Cybersource alone have 450,000 active merchants. So they are the kind of scale partners that Nuapay has historically targeted.

The upside of this distribution model is partnering with customers with significant customer bases and volumes, like the ones above. But the downside is that we are reliant on those partners prioritising open banking. So our growth investment is about increasing our business development team and internal resources to be able to target both direct

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and enterprise customers and account manage our enterprise distribution partners to identify the opportunities that will allow us to scale.

We'll be announcing further wins in the coming months and I look forward to sharing those with you. I think the team at Nuapay have been very active on the sales front. In the next couple of months, the market will see the fruits of that.

On slide 9 we have the key highlights for the first half, some of which I've mentioned already. But some others obviously include the approval from the CBI to allow us to launch programs in Europe under the material growth framework. We launched 22 programs in December and some of those, as I've mentioned before, were signed prior to May '21 that were awaiting launch when we received the initial minded to letter from the CBI. So they were prioritised for launch. From a revenue perspective, the establishment fees for those programs were charged in FY21.

Again, we've made significant investment into our European risk and compliance function, including the hiring of several senior execs. In the next few months, we welcome a new Head of Compliance, a new General Counsel and recently welcomed a new Company Secretary and Head of Corporate Governance for our regulated entities.

We've also entered into an outsourcing arrangement with HCL in India who will be assisting us with various reviews, which they can do at scale more effectively and efficiently than we can do internally, because they're providing those same services for a host of banks and financial institutions.

Our remediation plan is continuing. We expect to fully complete it by 30 June. Whilst we are still under remediation and we still have months of work to do, ultimately this will position us as a stronger business with more resources to support our future growth objectives in Europe.

In the first half we signed 33 new contracts and implemented 85 programs, with six of those being Sentenial. Sentenial signed 34 contracts in the first half, both pre and post our ownership. I'd also make the point that we re-signed PCS, one of our largest customers in Europe for a further three years which is a great show of faith by them in our European business and the direction that it's heading.

One of the reasons we are able to maintain our full year guidance today is the impact of multiple initiatives that we worked on in the last six to 12 months. In part, this is very much in recognition that our operating expenses in Europe would increase and that we would need to overcome that on an ongoing basis.

Some of the changes implemented or soon to be implement include a change in our acquiring partner, saving us an estimated $1.2 million per annum; implementation of monthly inactivity fees on dormant accounts, generating an estimated $5 million per annum; bond purchases in Europe which we expect will have a net $1 million uplift to the P&L in the second half. Improved COGS as a result of a new agreement with MasterCard in Australia and Europe and contract renegotiations that will improve our margin outcomes and processing savings as mentioned before from April as our two largest European customers transition to the TRACE platform.

On page 10 we have our sales pipeline which now includes Sentenial. Despite our regulatory challenges in Europe, I think our sales team have done a great job in continuing to build out the pipeline. Having looked at this recently, our win rate on the pre-paid business is holding at 40%. In the prior comparative period we signed 79 contracts with 55 of those being GPR. So our GPR new contracts in the first half was more than 50% down but that shouldn't be too surprising given Europe is our largest market by some margin and we were unable to sign new contracts in the first half. We are focused on the second half on getting back to our historical cadence of contract wins within the pipeline.

On page 11 we talk about some of those new programs which I won't belabour because it's probably more important that we get into some of the other slides. But slide 11 you'll see some new programs, both in our mall space which is probably the first digital gift card program for a malls' customer that we've implemented with Cadillac Fairview. You've

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got Coinjar in the UK and you've got Crosspay which is a cross-border payments company that entered into an agreement recently with Nuapay.

Slide 12 we talk about earned wage access which we have talked about before, but it is one of the evolving opportunities we see. We have some new partners there in that segment. I believe that that segment will be a significant growth driver for us because I think you are going to see a lot of disruption in the way that payroll operates over the course of the next three to five years.

On slide 13 we signed Banco Sabadell, a Spanish bank that will be utilising our payments technology. We signed Flexischools, a leading Australian provider of payment for children who have launched effectively a GPR card for children in helping them to understand the management of money.

On slide 14, investors would know that we've partnered with MoneyMe for the last couple of years. That has seen GDV increase from $6 million in Year 1 to $45 million in Year 2 and is on track for $100 million this year. This is a key part of our business plan that we've mentioned before, working closely with our customers so that their growth and success becomes ours. We're excited to announce that MoneyMe will be extending the Freestyle product into both their auto lending business and also into SocietyOne which they recently acquired.

It's that balance of organic growth from existing customers and growth from new business that drives the revenue flywheel at EML.

On slide 15 we outlined our partnership with AptPay in Canada who we are working with to grow our GPR business in Canada. Again on slide 16 as I mentioned earlier, we've re-signed PCS, one of our largest customers in Europe for a further three years.

Moving to slide 17, investors will be aware that Shine lawyers filed a class action proceeding in the Supreme Court of Victoria. In the half we have worked with our specialist counsel to determine what our likely legal expenses are over the expected duration window. We have taken a provision of $10.5 million. We will be asking the court to have Shine deposit this amount with the court so that they can cover our costs when we win. Given this is linked to the CBI issue, we've excluded the provision from underlying EBITDA.

In general terms we consider this to be both baseless and opportunistic but it is in the commercial interest of Shine to drag this out and maximise their fees. So we've taken the provision and investors should expect this to play out over the next three years. I'm sure it is in the commercial interest of some to maximise media coverage of the action but, as it will be before the courts and I'm not a class action lawyer, I don't expect to be providing a running update on this. We'll leave it to our General Counsel to meet any continuous disclosure obligations.

On the next slide we have a short Accelerator update and, in summary, we're making very good progress. We can now support Visa programs in all regions. We launched Seamless in the USA, which is our payments portal, in conjunction with Interchecks. We entered the open banking account-to-account industry in Europe.

We've continued to invest in TRACE that we acquired as part of the PFS acquisition. TRACE has continued to scale up and obviously supported 1.4 million cards for the Northern Ireland stimulus package. In April, as mentioned before, we begin transitioning volume from our outsourced processer across to TRACE.

The third leg of Accelerator, our finlab investments have performed well. Remember, when we make these investments it is about mutual access to technology and distribution not acting as a private equity investor focussed on an investment return. But with Interchecks, as mentioned before, we have launched our payment portal, Seamless, which incorporates our card payment technology with their non-card payment technology such as direct debit, Visa Direct, Mastercard Send and PayPal.

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Interchecks recently closed a US$16 million raise at $115 million post money versus a $20 million valuation when we invested 18 months ago.

Our second investment, Hydrogen, launched their platform in the second quarter and have over 200 customers using the platform. Hydrogen actually refers to them as tenants. So if you follow them in the media, that's the way they will refer it to. We're steadily growing the number of users and GDV. We're excited to see where this evolves to in the six months. It's not material at the moment but will grow and is showing some pretty promising signs.

We continue to work on other finlab investment opportunities and will update shareholders at the appropriate time. With that, I will hand to Rob to take us through the rest of the presentation.

Rob Shore: Thanks, Tom, and good morning, everyone. I'm going to take you through the financial results of the year starting on slide 24 of the pack.

As Tom mentioned in the highlights, the results of the first half of the financial year delivered strong GDV growth. We're up 209%. We've seen organic growth in all segments and the acquisition growth as we consolidated the Sentenial Group from the 1 October 2021. We've also seen revenue grow 20% over the prior comparative period with growth in all segments.

Organic revenue growth offset low interest revenue has been a feature through the first half and also delayed establishment fee revenue in our Irish regulated businesses and a significant increase in our overheads which we put on to address concerns raised by the Central Bank of Ireland last financial year.

The consolidation of Sentenial contributed $2.7 million of revenue and $200,000 of EBITDA. So 86% of the first half revenue growth was organic in nature.

It's been a challenging six months and the results are really further evidence of the resilience of the EML business model. Gross debit volume was up to $31.6 billion. It's a record result for the Group and it includes $19.5 billion from Sentenial, as I say, was only consolidated for three months of the year from 1 October.

Volumes translate to revenue at different rates depending on the segment but the GDV volumes indicate demand for our payment services. In the period we saw both the organic growth in all segments which contributed $1.9 billion of GDV growth or it's at 18% growth on the PCP alongside that acquisition growth. It's not all acquisition growth. There is a strong growth from organic sources too.

GDV from our GPR segment demonstrated strong organic growth, we're up 29% in that segment to finish on $6.3 billion. We particular saw a strong performance in the digital banking, salary service and the government verticals which were driving that segment result.

Our gifts and incentive segment saw a significant recovery from the impact of COVID in the prior year. We saw record first half GDV. Although to a lesser extent than in prior periods, we did still see the segment impacted by social distancing restrictions which were introduced in Canada, Germany and UK in late November and December which was in response to the Omicron variant.

GDV was up 21% on the prior year with malls volumes up 26%. Award and incentive programs grew 4% on the PCP because we had some tougher comparatives with the prior period was benefiting from some non-recurring COVID programs such as the Diageo program we saw in Ireland in the prior year.

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So the early part of Half 2, we've seen continuing challenging trading conditions particular in Germany where a key customer's service desks remain closed. But we've seen incentive programs perform well with employers offering digital incentives to try to get employees back into offices.

In the digital payment segment this was our VANS segment in previous years. Following the Sentenial acquisition, we've renamed the segment to better reflect what the segment does. GDV has increased by 431% to $24.4 billion with the acquisition of Sentenial driving 98% of that growth.

It's pleasing to see the Nuapay open banking volumes have grown with 30% year-on-year. This is prior to EML's investments being made to drive additional growth which is happening now and will be a feature through the FY23 year. They were somewhat bootstrapped in terms of their spend on growth initiatives prior to EML acquisition. As Tom said, the money that we're investing will help drive that forwards into future periods.

Moving onto revenue now on slide 27. We grew 20% over the PCP to record first half revenues of $114.4 million. The Group revenue yield is driven by segment mix. So that moved to 36 basis points through the consolidation of the Sentenial Group. Group revenues excludes $900,000 of non-cash amortisation which is AASB 3 fair value uplift on the bond portfolio. That's acquisition-related accounting. The majority of our revenues are generated from recurring revenue streams in the GPR segment. So GPR represented 61% of Group revenues in the first half so we are still a majority GPR business.

The GPR segment grew wholly organically, 28% revenue growth up to $69.6 million in the period with a segment revenue yield flat at 111 basis point. This is despite lower interest revenue and the loss of establishment fee revenue in the half in our Irish regulated business. So had a couple of headwinds it had to overcome in the last six months.

In the G&I segment revenue has increased by 6% over the prior comparative period. We saw increased volume - improved volumes in the period offsetting the higher breakage rates due to COVID we saw last year. But the restrictions in Germany, Canada and UK did impact volumes and they were lower than our expectations for that six-month period.

Revenue yield 408 basis points, impacted by the timing of revenue recognition of carrying over $4.2 million which will be recognised in Half 2 ender AASB 15 compared to $3.8 million last year.

Digital payment segment consolidated $2.7 million of revenue through the acquisition of Sentenial and generated 7% Group revenues. The segment is strategically important to the Group's growth prospects with the opening banking product, Nuapay is expected to demonstrate a very strong growth profile over an elongated future period.

Moving to slide 28 and looking at gross profit margins we saw a margin compression of 5% over the PCP to 66%. The main drivers of this was a drop in interest revenue in the first half. We dropped $2.7 million versus the same period last year to just $600,000 this period. That's approximately half the margin compression we've seen. We've guided to this previously, that we've been challenged by historically low central bank rates in all of our key markets for some time.

Well, pleasingly though, in December 2021 and more recently, just a week or so ago in February, we've seen the Bank of England raise the cash rate by 40 basis points in the UK on the [GBP]. That's going to have an immediate benefit to Group earnings in the second half. These moves by the Bank of England are worth more than $2.5 million in annualised interest rates. And they're one of the first Central Banks to start moving rates and it's going to have an immediate impact on future interest revenue streams. So the headwinds we've been facing for several years now are already starting to turn. And we expect to see further interest rate rises in many of our key markets in future periods.

We'll talk about this more in the review guidance, but on page 36 we've outlined the breakdown of our $2.7 billion float into the currencies in which they're held and given an estimate of the potential future impact of interest rate rises. EML

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will certainly be a direct beneficiary of interest rate rises; we've got a small amount of debt, denominated in euro, and we've got a large liquid float balance that earns us interest. So we'll be a net beneficiary from interest rates rises.

Group gross profit margins were also impacted by a reduction in set-up fee revenue, due to Central Bank of Ireland restrictions. And we expect to see improving establishment fee revenue in the second half, as new programs gradually launch through this next six-month period. Restrictions only impacted the European operations of Prepaid Financial Services, but given the size of that business unit, it translated into a reduction in the overall GPR segment margins. It's significant because the set-up fees convert to gross profit at 100% margin.

The outlook for margins in the second half is better. So through interest, immediate interest rate rises impacting interest revenues, but also better establishment fee income, but then also through a number of initiatives that we've been working on for some time starting to come to fruition in the second half.

During our acquisition of PFS, we'd predicted synergies from the insourcing of payment processing, currently a cost of more than $5 million per annum, and we've been working hard to develop that internal processing platform since we acquired the business. We've now, in the last six months, had successful launches in Northern Ireland stimulus, which was more than 1.4 million cards, and the [Aston] program with the UK Home Office, which has proven the capability of that processing platform. So now we'll see, starting in the next few weeks, volumes from two of our major European customers will already start to transition through the second half and that will generate at least $3 million of total savings in FY23.

We've also agreed price discounts with our key payment schemes in both Australia and Europe. These take effect from 1 January and improve margins through lower transactional costs from our scheme partners. We've commenced reactivation campaigns to encourage customers with dormant accounts to recommence using their account. And we've also introduced account maintenance fees to offset the increasing costs of compliance and the negative interest rate from our euro float. We'll talk more about that in just a moment.

Moving onto slide 29 now and overheads. We're slightly ahead of our guidance range for costs; we had overheads in the first half of $48.5 million, so 45% of the mid-point of our overheads guidance. We're up 24% on the PCP, and we still expect costs to increase in the second half as new roles recruited in the first half and starting in the second half, will impact this future six-month period. It's worth reflecting on the context of the overhead increases though, and the achievements of the Remediation Project in the period.

So whilst the increase in overheads is significant, the rapid actions taken, and the new roles recruited has been essential in regaining the confidence of our regulator. We've demonstrated our commitment to meeting their expectations and that's led to the path forward that we announced in November. Without the commitments to these spends and the significant increase in the spend on people, control, technology overheads, we could have been stuck in a challenging regulatory dialog with this regulator for a much longer period.

The majority of the increase in costs relate to PFS and, to a lesser extent, consolidation of Sentenial for three months. So the increase in the PFS cost base will support growth in future periods. So whilst we're at the forefront of evolving regulatory requirements, we're expecting all industry participants, so all of customers to face these same challenges in the future period.

Looking at slide 30, underlying EBITDA $26.9 million was down $1.2 million. It's down slightly on the PCP, because we were unable to entirely offset the impact of the cost increases and lower interest and less set-up fee revenue in the first half, despite strong revenue growth. The slowdown in late November for the gift volumes due to Omicron was the gap, but we're expecting to close it in the second half with the initiatives I outlined earlier. These aren't new initiatives – these have been worked on for over six months, and they were started because it was clear that our cost base in Europe

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would increase markedly, and we can't sit by and not respond to that. So we've been working on the levers, on customer pricing, contract renegotiation and new fees on dormant accounts.

We were impacted, as I mentioned, by non-recurring fees associated with the CBI remediation project, it's about $2.2 million, and by class action litigation initiated by Shine in late December 2021, so we've taken a provision. As Tom outlined, Shine Lawyers filed Group proceedings in the Supreme Court Victoria in December and EML vigorously defend them. We recognised a $10.5 million provision for the likely legal costs that will be expected to be incurred in defence of these claims. We intend to seek an order for security for such costs from the class action plaintiff, and we also hold an insurance policy, but it has not yet reached the necessary accounting criteria for recognition at this time.

So including these non-recurring costs, Group EBITDA was $14.2 million. And moving to slide 31, we bridge the movements between EBITDA and NPATA, but we still consider underlying EBITDA of $26.9 million to better represent the trading performance of the Group in the period.

Looking at the balance sheet on slide 32, we remain in a very strong balance sheet position with $86.2 million of cash on hand, and we have $30 million of breakage accruals, which is the contract asset, of which 64% of this will convert to cash within 12 months. As gift and incentive volumes improved in FY22, year to date, this has led to a working capital outflow into the contract asset, as compared to the inflows we saw in FY21 when our volumes were impacted by COVID.

We've split out cardholder assets of $2.06 billion and a liability owed to our cardholders of the same amount. These are the amounts held on behalf of our customers in cardholders and a direct offset, and the amounts we self-issue for these products under our own licences. And so it's less than our total float of $2.7 billion, which includes the North American business where it's issued by our partner bank. So when we look at the interest rate potential upside, it's the $2.06 billion that's the more immediate number that we'll benefit from. Positively of the $2 billion, that's significantly weighted to GDP, where we're already starting to see interest rates move upwards.

Trade receivables during the period, we had some delayed receipts of approximately $8.6 million from two customers. We've already received 75% in the second half, it's already in our bank, and the remainder is just a timing difference over from the Northern Ireland stimulus package, so there's zero risk with non-collection. We don't have an issue with receivables; we typically sit on client funds. So these are just timing issues in the first half that have already corrected themselves in the second half, as we speak today.

Intangibles increased with the acquisition of Sentenial and the valuation of their software and goodwill being brought onto our books. Associated with this acquisition was also the drawdown of $48.2 million of interest-bearing borrowings from our banking syndicate in the period.

I mentioned the provisions we've taken up and we've got $19.7 million there as at 31 December, and they will fund the expected future costs of the] PFS regulatory matter, and the legal fees associated with the class action. So trying to draw a line under the class action by further providing for it in this period.

On slide 33 we show underlying operating cash flow of $14.7 million which is impacted by the delayed receipt of those two large customer balances totalling $8.6 million. As I say, 75% of this has already been received in the second half, so we'll see this come through into the cash flow in the second half

Slide 34 and 35 now thinking about guidance. Underlying guidance for FY22 is as follows. Revenue of $230 million to $250 million, that's up between 18% and 29% on FY21. Still expecting gross profit margins of around 6% to 9% for the year. Overheads between $103 million to $112 million, which is up 34% to 46% on FY21. And the result of that is underlying EBITDA forecast, which we're maintaining, we're re-affirming our guidance range of $58 million to $65 million for the full year FY22.

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There's obviously some assumptions that underpin that guidance range. We're assuming the Gift and Incentive segment will perform in line with seasonally adjusted trends, so we're not expecting to see a significant impact from COVID-19, a new variant or some other issue, cropping with COVID-19. We're implementing opportunities to reduce dormant state balances, including the activation programs or - which could drive interchange revenue or dormancy fee if the money is not reactivated. So subject to finalisation of this initiative, we expect a new recurring revenue stream, we expect a non-recurring catch-up in the second half. There are new fees on dormant accounts, so we're not seeing any pushback on these – there's no competitive pressure there, because they're dormant accounts and they have been so for some time.

We expect to be able to continue to launch new European programs under our CBI licence, and we don't expect material impacts from the growth directions which have been imposed. Overheads are tracking in line with expectations announced at our AGM in November, with higher overheads driven by new roles in Europe to address the CBI matters, higher insurance costs and higher internal/external audit fees.

Lastly from me, I wanted to provide some detail on the potential interest rate benefit. I don't have a crystal ball, but there is a strong rhetoric around interest rate rises at present. So we've provided a breakdown of the cash balances by currencies so investors can really do your own modelling in your own expectations of where you think interest rates are going to. We obviously have our own ideas on that. Bear in mind all interest rate rises are to our immediate benefit, except in the US, where interest rates need to be above 2% for EML to benefit under our sponsor bank agreements.

So we've given a chart of the potential benefits for Group P&L if there was to be an interest rate rise, and this is on the right-hand side of the slide. If we saw only a moderate interest rate rise of 50 basis points, this would benefit the P&L by an immediate $7 million to $8 million. If the economic forecasts are right for the medium term being three years, you could see multiples of this. We've seen several years of headwinds from interest rates and FX rates which follow the interest rates primarily, so it's pleasing to see that it'll start to turn into a tailwind in further periods.

If you look back on our results from several years ago, interest was a much more significant core revenue stream. And so I can't predict the timing, but if we saw a 50-basis point rise across the board at $7 million to $8 million, if you achieve the sort of consensus economic forecasts, and we see the interest rate rises that the smart economists are predicting, then you could be looking at a $30 million revenue stream in three to five years' time based on current volumes. And so with that, I'll hand it back to the Operator to open up for any questions.

Operator: Thank you very much. We will now begin the question-and-answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question.

Rob Shore: Had a couple come through from the webcast, the first one was, if interest rates were to rise tomorrow by 1% globally, how quickly will the earnings benefit the Group? It will happen immediately. So it's on the liquid float, since we've broken out our floats into liquid as well as the bond, investment of the bond is fairly fixed. The majority of our portfolio is held in liquid, and so you'll see that start to rise immediately.

Operator: The first question comes from Steven Kwok from KBW. Please go ahead.

Steven Kwok: (KBW, Analyst) Hi, good morning, thanks for taking my questions. I guess just the first one I have is just around the CBI investigation. I think you mentioned that in June you'll have more – I guess like what is the going forward? In June, if everything is remediated, is that the end of the investigation, and there is that you can continue to grow and sign-up new clients. Just wanted to get a clarification in the CBI side, thanks.

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Tom Cregan: Yes, it's Tom Cregan speaking. Yes, that's correct. So that plan has always been for us to implement the full steps in the remediation plan by 30 June. Now included within that is customer notification. So if you're changing limits to certain customer programs, or changing terms and conditions, that requires a 60-day notification to comply with consumer law in most countries. So that is included within that timeframe. And the process is really that the remediation plan is completed internally and then gets independently reviewed, in what's just called an independent assurance process. So the first step is the Board of PCSIL sign the remediation plan off as having been fully implemented. It then goes through a kind of independent assurance process, which just validates that all of the steps and changes have been made.

And then effectively the program is over, because at that point the CBI's expectation is that it's then, what they would call internalised. And so all of that – all of those changes to policies and procedures and so forth are then part of the BAU, not part of an ongoing remediation plan. We are able to, I mean obviously Banco Sabadell and others, so we are signing other customers in Europe as we speak, and we're able to put those forward to the CBI for approval, as well as the ones that were launched late last year. So I think the good news is, kind of competitively, we're not kind of stuck in the concrete there. We're able to talk to customers and actively prospect and sign.

I don't think – I'll just make one point that I made before, and part of this is luck and good fortune. But the nature of this industry, in terms of the sale cycles, mean that when we received notification in May, the original notification from the CBI, there were obviously these programs that had already been signed that were waiting kind of implementation. For those customers, it's obviously not ideal that they had to wait to launch them. But in their shoes, they would have had a couple of options and one of those options was to wait, and to trust us to get the issues resolved and get their programs live. Or to go and find an alternative provider. But in doing so, you're then starting the process again. So you're then having to find a different provider, redo all of your technical integration work, which might take six to 12 months.

So we didn't see any real defection of signed customers because they were in that – I guess in that between stage where it was just easier for them to work with us and expect us to get their program live. Similarly for new business that you're signing, there's a 90-day window that the CBI have, and most regulators have, to approve new customers. So if we were signing customers today, and putting that forward, there's no expectation really of that customer that it would be any less than 90 days, right, to get regulatory approval. And obviously that customer then has development work on their side. So on average, that's kind of a six-to-seven-month process for the customer to do work, the development work on their end. So again I think our prospects and the customers who are in the pipeline just expected us to have this done and have the remediation plan done such that it wouldn't impact the timings of their launch. And that's where it sits.

Steven Kwok: (KBW, Analyst) I have a follow-up question around the guidance. As we look at the first-half results and I was just wondering like how much was Omicron impact and then you kept the guidance the same. So I was thinking relative to your prior guidance, like what are some of the new things you've implemented – I think you called down acquiring fees,dormancy fees, were those factored into your previous guidance? I'm just wondering to see how much of a headwind did you have, and then where were the areas off that to get you back to your guidance of full-year, thanks.

Rob Shore: Yes, that's a great question. So the Omicron impact – it's always very hard to say what volumes you didn't see come through. But I mean based on the run rate that we were seeing through November, which you've got Black Friday going in there for the sales there, so you've got a decent amount of lift of volume going through. We'd estimate it's around another $100 million of volume; so it's about $6 million of revenue, just under $5 million of GP, that with the headwind we think from Omicron through last week in November through first three weeks – through to Christmas in December.

That's the headwind; how we offset that? I think we factored in an element of well dormancy fees, but I think it's going – the project's progressing well. It's a complicated project – you're working on multiple countries to work through consumer law onto it. That's progressing better and faster than expected. We've seen interest rate rises are going faster

than expected. I mean the Bank of England has probably moved faster than most economic forecasters, who are typically quite conservative, and that would immediately benefit earnings. And we had factored in the Mastercard agreement in Australia.

And so I mean partially built into guidance previously – we'd obviously left ourselves some wiggle room for things not happening exactly to plan. I think most investors heard me talk about don't bank on 365 days of sunshine, and I think that's really what you're seeing there. So yes, we definitely – we're a little bit disappointed in terms of the GDV, but the actions that we can control have been going better than we expected and that's what we can focus on, what we can do.

Steven Kwok: (KBW, Analyst) Great, thanks for taking my questions.

Rob Shore: No problems. There's been a couple of questions as well on interest through the chat, which I can probably roll into a little bit more dialogue. Part of it is we've got a $2.7 billion float – a 1% rise doesn't seem to correlate directly to $27 million EBITDA. It doesn't, because of the US dollar float which we don't earn interest until the US Central Bank rate goes above 2%. And so that's the big gap and then there's the Canadian, I think is 65%, 70% of the interest we get to keep. So there's some nuances in that, but broadly we took $2 billion of the amount that's on our balance sheet; we get the interest rate benefit on that immediately washing through, because we're already starting to see improved interest on our GBP which is a significant part of that float that's already coming through now.

Operator: Thank you. The next question comes from Elijah Mayr from CLSA. Please go ahead.

Elijah Mayr: (CLSA, Analyst) Good morning, guys, and thanks for the questions. Just firstly, could we just go into a bit more detail on the overheads; I guess going into the full-year guidance, it's implying I guess around $60 million for the second half '22. Can you sort of maybe give us a bit of colour on how we could expect that to progress in the third quarter and fourth quarter? Just trying to get a sense of what that exit rate, what overheads would be towards the end of financial year '22.

Rob Shore: Yes, I think your exit rate is going to be your second half run rate. You've got – because you're consolidating up Sentenial's overheads for a full six-month period and not three-month period, so that's part of your lift. We're also investing heavily in the Nuapay product and building our open banking position in that market as well. So that's part of the lift. And then finally you've got the roles, as Tom's called out, and the new Head of Compliance is a significant and expensive role that we're putting in place. And so that's really your run rate through – if you took your second half OpEx run rate, that's your run rate through into FY23.

Tom Cregan: Yes, I think Elijah, the hiring – the people that we've hired in Europe in that space – so just for the benefit of most on the call. So regulated businesses over there have what they call PCF functions, so control functions. So the CFO will be a designated PCF, your Head of Compliance will be a designated PCF. Any of those PCF roles have to be approved by the regulator and so what we've done is hire some really seasoned people who have been in the industry for a long time, have held multiple PCF roles across different companies in the industry. So that they're basically already known to the regulator, right, because they would have worked with them in various roles.

So some of these people we've hired have got 20-year track records – they're not cheap, right. But at the end of the day, that's not really the point; we're hiring people there to the now. And so the other thing I would say is we, historically, whenever we've looked at adding senior executives into the business or growing expense in some part of the business, we've always looked at how do you self-fund that, right. But this first half is not a period to think about self-funding. We could have been really cute and said how do we minimise overhead additions, but that wouldn't have got us back in business with new programs in December. And that's really the crunch, right?

I mean I'm not going to worry too much about overheads in a half versus our long-term competitive position, which would be impacted if you were unable to launch programs and unable to sign new customers. So the run rate as at June

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will include those individuals. So that will be the starting point, but you're not going to see the same kind of growth in – well, Sentenial will be net-new which you will have to model, but after that I think the kind of expense growth will just return to what the historical levels were previously.

Rob Shore: I think that's key because you're going to see we've managed to maintain strong revenue growth – we're up 29% in the GPR business. You can outgrow a step change in this overhead base from the FY22 year, you can outgrow that. And so this is unusual – we've had a strong track record of a holding the line in terms of leveraging our cost base. This is the first year that we've had to put in place a pretty significant increase. But we've managed to maintain the revenue growth, so the overheads will correct themselves over time.

Elijah Mayr: (CLSA, Analyst) Yes, I appreciate the colour. Then maybe a second one just on the sales pipeline increase to, in terms of the projected three-to-four-year GDV to $13.6 billion from I think $10.5 billion. This period seems to be including Sentenial; can you give us a sense of that $13.6 billion, how much of that is from the underlying pipeline, and how much Sentenial, I guess, contributes to that projected GDV?

Tom Cregan: Yes, in terms of the pre-paid section is probably in the $10 billion range and Sentenial will be $3.5 billion, in that kind of magnitude. So if you look at the pipeline – if you went back a year ago, we would have had then a core $10 billion in the pipeline, you've got a 40% win-rate. Our GDV this year is up 20% to 40%, so you've always got conversion of what you said a year ago kind of coming through. And then you've got your future conversion coming through as well. So the pre-paid type would be around the $10 billion mark and Sentenial would be in the $3 billion-and-a-bit mark I think.

Elijah Mayr: (CLSA, Analyst) No problem. I'll pause it there and some other questions come through. Thanks guys.

Operator: Thank you. The next question comes from Tim Plumbe from UBS. Please go ahead.

Tim Plumbe: (UBS, Analyst) Hi guys, just a couple of questions from me, if that's all right – and largely follow-ups from Elijah. But we spoke about the uplift in costs, Tom, how do we think about the operating leverage opportunity for this business in FY23 and beyond now that you've had an extremely material uplift in FY22? Is there significant further investment that's required, or should you get pretty strong operating leverage with top-line growth thereafter?

Tom Cregan: Yes, look I just think our expenses will just come back to their normal cadence. I mean you're not going to have the costs of remediation which, from a cash flow, I mean we obviously provisioned them last year, but from a cash-flow point of view are still pretty significant. I think by the end of June you've really got the Europe kind of rebased I would think with the increased costs around that. The rest of our business is on budget for OpEx and just in line with normal historical standards.

So I think, when you look at leverage, you look at things like processing savings being banked next year, which we're pretty confident of. Because when your two largest customers are migrating in April, then it becomes more definitive that you're going to obtain those savings in the next couple of years. When we bought PFS, we said there was about $6 million of third-party processing savings, but it's still £3.2 million a year, as we sit here, right. So there's – given exchange rates, A$6.7 million something of that magnitude, so you start to get that leverage come through. Interest rates will give us leverages that we haven't had before.

In fact, if you just take a quarter – if you just take a half-on-half, we had to eat $2.7 million of negative debt interest which we didn't have to eat in the prior comparative period because we weren't European regulated. So we only moved – it was Brexit, so we had only moved there in December. So you didn't have $2.7 million of both revenue and margin which we've had to outrun in this first half, but obviously you can't outrun it because it is what it is. So you've got to find ways of addressing that.

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So part of that is interest rate recovery, part of that is bond purchases that we've talked about earlier which add about $1 million in the second half. So you're starting to get that – you start to get that coming through. So that's where some of that leverage comes. If you're growing revenue at 20%, 25% and you're starting to – you just get back to more of a normal cost, OpEx cadence, then you get margin improvement from those items, I think you start to see the EBITDA margin's going to move up accordingly.

Elijah Mayr: (CLSA, Analyst) Got it. And then just a second one, a follow-up in terms of the sales pipeline. Maybe are you able to give any colour in terms of potential new vertical opportunities that sit within that bucket? Or how we should think about the timing around that potential sales pipeline, and is there a significant portion of that that should come up for decision making over the next six months?

Tom Cregan: I don't know about significant portion, but I mean we're kind of – I know it'll sound a bit cheesy – but if we were doing this call in a month's time, we might have a few more to announce. But we certainly think material opportunities that were in the pipeline last year – because we often get asked – out of a $10 billion pipeline, what are the bigger opportunities within that? There's always ones that are smaller and there's always ones that are larger, like a bell curve.

But on the Nuapay side, I think in the next couple of months/six weeks, they've got some pretty sizeable deals that I think would be ASX worthy of announcement in terms of materiality. On the pre-paid side, I'd expect a couple as well in the next, I'll say in the next month, that are ASX worthy. But obviously the more deals – the more customers we have, you can't use the ASX as a marketing platform, right, so you can't go and put every new deal on there because they'll just knock you back.

But I'd be surprised if we don't have probably four announcements in the next month; so I sit here, in a month's time we would have a few others. And they key – they are, I'll just say, the more sizeable. And if you can get them in, then obviously you're getting – they're the kind of how I call it, the – not foundational, but they're the ones that scale you quicker, right. I mean you can add a lot of programs that in a year, year two might be $10 million, $20 million, or you can add some that could be $200 million, $300 million, $400 million, and obviously they're the ones that we're aiming for. So I think it's a bit of a watch-this-space, but in the next month I'd expect we'd have three or four, yes.

Elijah Mayr: (CLSA, Analyst) Right. And sorry, just in terms of any colour you can give us in terms of new vertical opportunities that sit within that pipeline, or should we be thinking similar verticals that you're already servicing, such as neobanks, online gaming, etc.

Tom Cregan: Online gaming – yes, I think – I mean I'll go to Nuapay first, then I'll do the GPR piece. But certainly on Nuapay, it covers acquirers, it covers aggregators, it covers payment gateways who want to use open banking services because they're merchants. So they're asking them to have open banking services available and they're expecting that at a lower cost, right. So you've got kind of competitive tension there, right. So there was a company yesterday called Banked which we'd looked at as [fin-layer] to investment before deciding to acquire Sentenial. But I mean they raised $20 million. Their key customer is Bank of America. So you've got Bank of America looking at adding open banking into their merchant services the same way that Nuapay has done with Elavon, Citi, WorldPay and a bunch of others. And so they're making safe charge et cetera., so they're making good progress on getting through there. So that will be the kind of decent ones on the Nuapay side.

On the pre-paid side, honestly, it's still pretty varied. Like there's one that I can't go into, but I will go into when we announce it, which is a new – it'll be the first time we've been – we've gone into that vertical in Europe. But it'll probably be our largest vertical by opportunity size, and there's a lot of data on it. And therefore we can provide some more colour on that when that gets announced. But yes, earned wage access, several customers in that space. Digital lending – I mean as we're sat here, we signed the – we've signed a contract as we're sat here, with a digital lender in Australia.

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So I would say lending, earned wage access, disbursements – I don't think there's any particular skew in the pipeline; I think it's pretty balanced, pretty varied.

Elijah Mayr: (CLSA, Analyst) Got it. That's great, and I'll jump back into the queue, thanks.

Rob Shore: Thanks Tim.

Operator: Thank you. The next question comes from Garry Sherriff from RBC. Please go ahead.

Garry Sherriff: (RBC, Analyst) Hi, Tom and Rob. A couple of quick questions on reloadables, and also supply chain and wage costs. Reloadables, some of those three verticals you called out – gaming, seller and packaging and government – any tailwinds or headwinds that you see for those verticals in the next 12 months?

Tom Cregan: No, not really. I mean I think gaming is always a pretty resilient, right, for most cycles. We didn't call it out in the deck, but we already had bet365 as a customer in the UK, and we've launched it into Italy and Spain. So you've got customers that are kind of increasing, or launching it in different countries, but I don't really see any good/bad – good times, bad times. I think gaming's a pretty resilient business. Earned wage access is brand new; I think I said last year that I think in years to come it will change the way all of us get paid. I mean this concept you get paid once a month because that's just convenient for your payroll team is gone.

Now you're seeing lots of companies attack that vertical in different ways. So you've seen companies that are attacking it as a quasi-lender, kind of lending you money against your future payroll. We've got – or they're more of a platform provider, so an HR ERP system that has payroll functionality that's added in earned wage access and won't charge for your salary to be drawn down, because they'll make their money on the SAS fee on the platform itself, right. So one of our larger opportunities in the next month will be in that space.

And early days, but just my gut feel is that platforms will win out in that space. I just think that charging people to access their salary I think won't stand the long-term test of regulators and what have you. Certainly in the US and different States you can't do that because labour laws would preclude you doing that. So I think the platforms are the way to go, and we're certainly pretty active in that space so we're excited about that.

Government, I don't see any real change in that position going forward. Northern Ireland was obviously one of our larger stimulus programs, but we're talking to other governments about similar programs. But the Northern Ireland government was pretty – was excellent actually, in terms of promoting the success of that program. So there was just a ton of media in Europe on that which has driven enquiries from other governments in different countries, so that's positive for us. So no, I don't really see any segments that are kind of subject of any kind of economic headwinds. I mean I'll ask Rob if he sees any, but I…

Rob Shore: No, what I think about that is, we've reiterated for a while that we've got incredibly low customer churn. I mean it's fractions of 1% over a three-year cycle, it's a very low customer churn. And so when you've got GDV and revenue growth and GPR segment of just under 30%, will always see a larger second half to the first half. That's the normal trend of our results, is a bigger second half to the first half. So I don't see any particular headwinds, but I also see that you're building off a bigger base, so all the programs that we've been adding in the first half will contribute more to the second half than the first, and so on.

So salary packaging vertical in Australia is it's incredibly resilient, it's got the whole nurses' payroll. So no, I don't really see any macroeconomic headwinds. I see a lot of benefits. I see a lot of benefit from interest rates, and I see a benefit from FX rates on the back of the interest rates too. I mean if you look at the GDP, the Bank of England announced 25 basis points increase and the exchange rate has moved from 1.8% to 1.9% on the back of that. And we've got a

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significant amount of offshore earnings. So we faced headwinds for a number of years, which has sort of been we've outgrown, largely, in previous years. Now we're going to get some tailwinds, which is going to be helpful.

Garry Sherriff: (RBC, Analyst) Thank you. Last two questions on supply chain; any shortage issues for plastics or physical cards or any increased costs that we should factor into for the second half of '22 or into '23? And I guess a similar question in relation to wage costs? Thank you.

Tom Cregan: No, on the plastics. So we did hear of some companies that were struggling to source cards, in the US in particular, but we haven't had an issue. I think just given the amount we buy, our suppliers that are the global suppliers like G+D really prioritise our business. They pay a lot of attention to it. So no issues on that front.

On the wages front, no, look it's not really disruption, I would say. I mean I think most companies are seeing more turnover from staff, this kind of so-called great resignation thing, and pay is under pressure. I think I was talking to someone recently, in the last week, who didn't work for us but was in an HR role on 135 and got recruited for 250. So you're seeing that happen, but we just don't pay those salaries, right, so we wouldn't be hiring that person. So I mean our rem structures are pretty fixed – we've got to just work within them. So in some cases that might mean you see a bit more turnover because you're hiring people, and a year later they're getting poached for more money. That's okay, but we can't really compromise the rem framework, or we'll just be chasing tail, nonstop. So I think it's a reality out there, but it's not really influencing the way we're paying people.

Operator: Mr Sherriff, does that answer your question?

Garry Sherriff: (RBC, Analyst) Yes it does, thank you.

Rob Shore: Thanks. Before we go to the next question on the call, maybe we'll just quickly do one from the chat that's come through. Tom, on the question about on the CBI, approving new programs and what are the impacts of the material growth restrictions?

Tom Cregan: Yes. So the material growth is in place until October, which is – December, I beg your pardon, early December – and we haven't gone into detail with the market around what that restriction is and how it would kind of impact our business. What we said last year and what we have done, is create, if you think about it like a professional sports team, create salary cap space by exiting certain programs that had significant volume but very low yield in order to replace that volume with higher yielding programs. So we have done that and created significant enough space, put it that way, that our – we don't see any likelihood of exceeding – of having that impact our business for this calendar year. We think we'll be able to operate under that material growth policy, but obviously continue to grow our business organically with the customers we have as well as add new business.

I think the second question was, are we submitting new contracts? We are – so as we're signing new contracts and they're going through a kind of revised risk-review process, we will be submitting them. As I said before, there's 90 days that the regulator has to approve those programs. That's pretty standard with different regulators in Europe. So you wouldn't see new business having been approved because we wouldn't even have submitted it until January, so I think you'll be looking for that in front of the March/April timeframe.

In order not to be kind of tone-deaf, if I can call it that, to the regulator, our agreement is that we will only put in, or only submit programs that kind of meet a certain risk threshold. And when I say that it's more – it's not financial risk or anything like that, it's just kind of the framework of how programs are assessed in Europe. And so most of the programs that we'll be submitting are going to be pretty vanilla, if I can say that, in terms of the countries in which they're in which removes kind of geopolitical risk as a consideration. So there's a bunch of stuff we're doing there, but the long and the short of it is we don't see that, based on programs that we expect to sign in the pipeline we're in, that we would have that – that that material growth restriction would be an impediment to us.

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Rob Shore: Thanks, Tom. Operator, do you want to go back to the questions on the phone.

Operator: Thank you. The next question comes from William Cunning from Carter Bar Securities. Please go ahead.

William Cunning: (Carter Bar Securities, Analyst) Hi Tom, Rob, thanks for what you've provided so far. I've got a couple of quick questions. Just firstly, just could you maybe provide a bit of colour just on your outlook for the multi-currency business? Just as we look at sort of travel resuming, especially around Europe, I think that business used to do maybe $120 million of volumes if I'm remember correctly. How much of that is sort of baked into the second half and maybe how can we think about that going into FY23?

Tom Cregan: Yes, not much is baked into the second half; it's really kind of very heavily skewed I mean last part of June, but far more skewed in July and August. Because in our multi-currency programs, I mean we've signed a large customer that used to be a Wirecard customer called Wally which we signed last year, but obviously the volumes of that won't – they just haven't come through. And a lot of the programs, if you look at Centtrip and Wally and these types of programs, a lot of them are – have expense management solutions for people that are in the travel industry. So for example, both Centtrip and Wally, you're talking about corporate expense cards, for want of a better word, that are multi-currency for shipping operators, and people that run yacht fleets, and yacht rentals and things like that all throughout Europe in those summer months.

You've got Avios which is obviously more of a B to C model, which I think will do far better – I mean really last year it didn't do anything because of restrictions. But I think you know we expect to see that better. So travel cards really, since we bought PFS, it was about 10% of their earnings and that disappeared with the advent of COVID. But I think that we'd be looking forward to that coming back in FY23 – we just haven't had that in the last two years. So again, probably back to one of the previous questions, we see that as a little bit of upside, but a bit of leverage too, given the margins are higher in that product segment.

William Cunning: (Carter Bar Securities, Analyst) Yes, thanks for that. I guess that sort of feeds in perfectly to my next question, just on the GPR business, just the whole combined business; should we see some degree of revenue margin uplift? If we think about the maybe faster-growing programs of US gaming obviously multi-currency, my understanding was that they transact at a higher margin than maybe some of the other programs that you've got. Should we see that maybe progressively build, year-on-year, from '23 to '24?

Tom Cregan: Well, I think it'll build, but I wouldn't be putting any real aggressive forecasts into the yield. Because the yield is just a mix of different programs, right. So if you looked at – gaming in the US is higher than gaming elsewhere for us because of interchange rates. So you've got benefits in certain markets. Programs in Australia, and we might do some of these overseas, that are salary-packaging programs that are more fixed-price models, if you like. So you're charging a fee per month for the card irrespective of volume, obviously changes the yield. You've got government programs in certain – in the UK for example, where the program might be 40 basis points, but part of our earning stream is more funds are pre-deposited with us by the government, which we then invest in government bonds. And so the collective gets you to the same number of yield.

So where the yield is, I would kind of keep it steady, or I would slightly increase it, but I wouldn't be going to crazy. Because even with multi-currency that's north of 200 bps, it was 10% of PFS when we bought it – PFS is obviously a much bigger business now so it might be around 5%. So it'll move the needle a little bit, but not hugely.

William Cunning: (Carter Bar Securities, Analyst) Yes, okay. Thanks for that. and I guess my final question is just on the Nuapay business; I mean you've had that for a couple of months now. Just off the back of COVID and what you've seen in sort of uptake in open banking, do you have any more sort of learning from that over the last couple of months, or any sort of improved view on the open banking market going forward?

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Tom Cregan: Yes, look we were all pretty bullish anyway, because it was our first acquisition, I think that was done, obviously tied into our project accelerator strategy, but you're buying a business without any earnings, which isn't historically what we had done. And buying a business that was under-capitalised that required – it required two things; it required just funds for growth, and it required someone like us with bigger scale to leverage. So instead of then building out their business and having to hire people and finding if they can leverage people that are already in EML finance team or the IT area or so on.

But look I just think, in a simplistic way, because I'll be a salesman for it because I'm a believer and I led that acquisition. But I just reckon you've got to look at where – I'll call it the smart money is going into that place. I mean when Truelayer raised $100 million, GoCardless raised $312 million. I think they raised $190 million I think the last time, and you look at the PE investors that are in there, I mean they're no fools. So they're seeing this as a 10-year transformational way in the way people pay. It's not there today but that's why they get in early, so they can reap the value of that.

So I think we're – I take a lot of comfort out of that because, they see huge growth prospects for those companies that are in the market, and so do we. And I think sometimes things that they're working on are really going to come to fruition, right. I mean when you're – so one of these ones that we hope to kind of announce early April, all things being equal, but you've got different competitors there with different strategies. So you've got some that focus more on the data side of the equation, so a company like Trustly, for example, which I would describe their business – they would describe it differently – but they're making a lot of money out of account verification. So Spotify, Netflix, Disney – so when you go for a subscription payment, they're kind of validating you and they're validating that you've got money in your bank and money in your card and so forth and for which they get a fee.

You've got other companies like Nuapay that make more money out of the actual physical transference of funds. But there's just so many opportunities in that space that, for me, just have a perfect fit and things that aren't competitive to us.

So I'll give you an example, you know crypto payments for example. Regulators are more and more interested in money going into a crypto exchange from a bank account, so they know where the money came from. And they're more interested in when the individual withdraws money from their crypto account that it goes back to their bank account. So that program, our card doesn't really fit the use case for that, because our card kind of fits to the side, you know it's not a core bank account. So I just see use cases evolving over time for that business. Things they're not even doing now – subscription payments and other things like that. So I'm as bullish as I was when we bought it.

The bigger thing I'm bullish about – I mean we've owned it for three months or four months, so it's kind of early days, but you always know whether these acquisitions are going to work within the first 90 days because if you buy them, and everyone's nice to you when they're selling their business, right, because they want the cheque and that's just the way it goes. Once you own it, you get a sense of just how the people will integrate, and the culture and so forth, and the team there have been fantastic. I mean you just don't see fiefdoms. You see them really wanting to be part of a growth driver for EML. You've got – by the end of June I think we will have integrated their IT teams and finance teams and HR teams into the broader European business; you don't see any politics or any rubbish, they just want to get on with it. And to me, that's what gives me hope. Like if we'd spent the first 90 days haggling on roles and what my job title is and all that stuff, you go oh my God, this doesn't auger well. It's totally the opposite; they're action-oriented, they've got some great people and they're just hungry and that's exactly the kind of business we need.

William Cunning: (Carter Bar Securities, Analyst) Yes, great, well thanks for that.

Operator: Thank you. The next question comes from Brendan Carrig from Macquarie. Please go ahead.

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Brendan Carrig: (Macquarie, Analyst) Good morning, everyone. Look I'll just make a quick follow-up really. So my question was just on the CBI. So around the independent sign-off that you were looking to potentially get, is that still a prospect? Or Tom, your comments about the material growth limitations being in place until December – does that effectively negate the potential for that independent sign-off for the CBI Remediation Plan?

Tom Cregan: No, we'll still do that. The sign-off is just part and parcel of the program. So yes, so that will go in. That's not going to be huge costs. I mean if we've spent –in round terms it might be $150,000 or something like that – a couple of hundred grand for that independent assurance, that's not a crazy number.

Brendan Carrig: (Macquarie, Analyst) Does that not – if and when you get that payout in the next couple of months, why then would the material growth limitations need to be in place until December of this year?

Tom Cregan: Yes, and it's possible that they're not, but so the CBI have said that they're willing to review that. So if – when we get to June 30 and when that program is complete and has been signed off, then we're fully able to go back to the CBI at that point and try to have it removed. So that option's there and has been acknowledged by the regulator that we are entitled to try and do that at the time. So it's probably the way best of answering that. So I think we probably would do that but as it stands, that restriction is there until early December.

Brendan Carrig: (Macquarie, Analyst) Okay, and then just a quick follow-up on Sentenial. So the EBITDA contribution for the first three months is effectively zero, and then the guidance is zero to minus 3 loss. So then is it fair to assume that now the spend, I guess, steps up, given the guidance range for the remainder of the guided period. And then I mean, just following on from the comments earlier, is it reasonable to assume that we should start to see a bit a tick-up in FY23 or – because the counterargument to your sort of optimistic comments about money flowing into the sector is actually that it's becoming more competitive, and actually might be more difficult to continue to win new clients and to gain momentum in the space.

Tom Cregan: No way, mate. This thing is a start of a 10-year flow. I mean it's just miles and miles ahead of any competitive saturation coming apart. I mean you're talking about – if you think about – this is the way I look at our businesses of pre-paid is inherently a niche business. I mean you've got different niche applications and use cases in gaming and salary packaging and so forth, right. And this wouldn't be just us, but it's our competitors as well; because it's niche, you see yields in the realm that we make, because companies have got to have a business model. When you start looking at open banking, you're talking about the total size of banking payments in a region, which is just astronomical.

So I don't think that – I think it'll be years before we're worried about kind of competitive tension or saturation. And you've got different companies targeting it in a different way. So as I said, you've got Trustly who have a go-to-market strategy. Truelayer who are a really good – it looks like a pretty good business, who have built a reasonable volume. I think GoCardless have done well. GoCardless typically looks after small merchants, so they have an integration with [unclear] for example, so they're providing open banking services for small businesses that are attached to those platforms. So it's just miles, miles too early to worry about consolidation and competitive tension and all that kind of stuff.

Brendan Carrig: (Macquarie, Analyst) Well, can I ask then, just about how the rollout at WorldPay is going, from their perspective, because if they then push it out to all of their merchants, obviously that's volumes uplift from the Nuapay perspective. So how's that progressing?

Tom Cregan: Yes, well, I think we'll probably update that in a month or so, I think, but along with all of them, with Elavon and Citi and others. And what we are doing, and what they are doing, is obviously looking for their merchants that have sizeable volume, because that's the way to get benefit for both parties. So with WorldPay, we're not out there incentivising their reps to go and target the corner store who might be using WorldPay. It's kind of working with

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WorldPay to look at their kind of enterprise clients within their own portfolio, and the same for Citi, and the same for Elavon and the same for like now Nuvei, which is the Canadian business that bought SafeCharge.

So yes, I think that's what we'll start to see and so I think the programs that will come through will be names that people recognise and the volumes are going to be sizeable. But it's just early on and it's open [unclear] as far as I'm concerned.

The key to success over that long-term is not going to be – well first of all, it's how many banks are you integrated to? So if you look at, I think Truelayer, don't quote me on this number, it's just one that's in my memory, but I think they were quoting that they're integrated with 3500 banks. I can't recall – I've just used that – I can't recall the numbers for the competitors. Nuapay is connected to about 2100, 2200 and expanding rapidly and will work with other companies that have bank – that already have connectivity to the banks to try to get to that same number by June. So you've got have the table stakes, which is bank integrations, but I think their tech and their solutions are really good.

Now when we bought it, I think I said this at the time, one of our institutional investors in Australia rang WorldPay and said why did you work with Nuapay, and they said really great at engineering, really shit at sales and marketing, and that was exactly what we wanted to hear. Because when you're doing the volume they're doing, you want world-class payments infrastructure and engineering, and hopefully we had the kind of icing on the cake on the sales and marketing piece. But they're early days – I think we've got – there's just upside, as far as I'm concerned.

Brendan Carrig: (Macquarie, Analyst) Okay, that's great. Thank you.

Rob Shore: Thanks, and I think we're going to have to – we have to wrap it up, I think we're running out of time. But definitely appreciate everyone taking the time to talk to us today and look forward to talking to many of the people on the call later through the week.

Tom Cregan: Yes. Thanks, everybody, much appreciated.

End of Transcript

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