

ASX RELEASE

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EmERCHANTS Agrees to Acquire Store Financial United Kingdom

- EmERCHANTS Limited (ASX: EML) to acquire Store Financial Services UK Limited (“SFUK”), a leading provider of prepaid stored value programs in 9 European countries, including the UK
- Acquisition price of A\$24.9 million¹ – 9.3x pro forma EBITDA²
- Consideration comprises 50% cash and 50% EmERCHANTS scrip
- Provides EmERCHANTS with a platform to launch the reloadable business into Europe, leveraging SFUK’s established and profitable non-reloadable business
- Subject to approval by ordinary resolutions (>50%) at AGM in November 2014
- Cash consideration to be funded through a \$14 million institutional placement, incorporating \$1.5m for recovery of transaction costs
- Proposed transaction is anticipated to be immediately earnings accretive to EmERCHANTS shareholders³
- Tom Cregan, CEO and Managing Director of EmERCHANTS, is a 25% shareholder of SFUK and excluded himself from all negotiations, EmERCHANTS deliberations and voting on any resolution. EmERCHANTS Chairman, Bob Browning, negotiated the transaction terms directly with SFUK’s CEO. The independent directors of EmERCHANTS have unanimously resolved to recommend the acquisition to shareholders, subject to a satisfactory Independent Expert opinion from Ernst & Young

Overview

EmERCHANTS Limited (“EmERCHANTS”) announces it has agreed to acquire 100% of the issued capital of Store Financial Services UK Limited (“SFUK”) from the shareholders of SFUK. Total consideration for the acquisition is \$24.9 million, comprising 50% cash and 50% EmERCHANTS shares. SFUK’s ultimate shareholders include SFUK’s founder and CEO, Mr. David Shewmaker (30%), Store Financial Systems LLC (40%) and EmERCHANTS Managing Director, Mr. Tom Cregan (25%) (“Vendors”).

SFUK has grown to become one of Europe’s largest shopping mall gift card processors and program managers, with over 100 programs in place across 9 European countries, including the UK. SFUK is affiliated with Store Financial Systems LLC (“Store”), the world’s largest provider of shopping mall prepaid programs. As part of the transaction, Store will become a substantial shareholder in EmERCHANTS.

¹ Purchase price excludes transaction costs associated with the acquisition and capital raising, retention shares and bonus share issues

² Forecast EBITDA for CY15, representing the first full 12 months under EmERCHANTS management

³ Before intangibles amortisation, transaction costs and integration costs associated with the acquisition and capital raising, retention share grant and bonus share grants

SFUK's business has been profitable since 2012 and the acquisition will be immediately earnings accretive for Emerchants.⁴ In CY2015, the first 12 months post-acquisition, Emerchants anticipates SFUK will generate revenues of AU\$8.6 million and contribute AU\$2.7 million in EBITDA to the group's results.

Rationale for the Acquisition

There is a compelling strategic rationale for Emerchants acquisition of SFUK:

- Provides an established, profitable business in Europe, affiliated with one of the world's premier providers of gift card programs, and with the ongoing involvement and commitment of SFUK's experienced management team, each of whom have strong incentives to drive the future growth of SFUK's business;
- Establishes Emerchants' service offering in a market estimated to be 10x size of Australia's and forecast to grow in excess of 20% pa for a market size of ~€150 billion by 2017;
- Accelerates Emerchants towards profitability, with the acquisition to be immediately earnings accretive⁵, and SFUK anticipated to contribute profit and cash in FY15;
- Opportunity to leverage Emerchants' reloadable payment applications onto SFUK's existing business, taking advantage of SFUK's existing banking, regulatory and operational relationships and expertise to significantly accelerate market entry, with modest incremental investment required;
- Broadens Emerchants' revenue base and lessens reliance on key Australian customer relationships; and
- Represents limited integration risks from a technical and operational perspective. SFUK's founder and CEO, Mr David Shewmaker, has committed to remaining with the business for 3 years and has significant incentives to grow the business, as have other key members of the SFUK management team.

Emerchants' Managing Director, Tom Cregan said, "The acquisition of SFUK provides Emerchants with a low risk entry option into the European prepaid market. Emerchants has had numerous discussions with potential European customers in the past, and SFUK provides the platform to service those customers in the near term. Already, Emerchants has signed a letter of intent with a UK-based corporate bookmaker, and we now anticipate re-loadable product launches within 12 months. Without the SFUK acquisition, the time to product launch would have been significantly longer and prohibitively expensive in terms of greenfield start-up costs".

Acquisition Funding

The acquisition will be fully funded through:

- \$14 million placement to eligible institutional investors, sophisticated and retail investors at \$0.50 per share; and
- \$12.45 million equity placement to the SFUK vendors at \$0.50 per share.

⁴ Before intangibles amortisation, transaction costs and integration costs associated with the acquisition and capital raising, retention share grant and bonus share grants

⁵ Before intangibles amortisation, transaction costs and integration costs associated with the acquisition and capital raising, retention share grant and bonus share grants

Emerchants will issue \$12.45 million in new shares to the Vendors as part consideration for the acquisition. 20% of the new shares to be issued to the Vendors will be escrowed for 12 months from the date of completion of the transaction as coverage against vendor representations and warranties.

In addition, as employees of Emerchants, shares owned by David Shewmaker and Tom Cregan will be subject to the approval requirements in the Emerchants Securities Trading Policy. In relation to shares issued to Store Financial LLC as consideration, Store must notify Emerchants in advance should it wish to dispose of any of its Emerchants shares and provide Emerchants with the opportunity to effect an off-market crossing.

Emerchants has also successfully completed a \$14 million placement to eligible institutional and sophisticated investors of 28 million new shares at \$0.50c per share, subject to the approval of Emerchants shareholders ("Placement").

The Placement price of \$0.50c per share represents a discount of 0% to the closing price of Emerchants shares on 23 September 2014 (\$0.50) and a discount of 2.9% to the five-day volume weighted average price (\$0.5148).

Wilson HTM Corporate Finance Ltd acted as sole Lead Manager and Sole Bookrunner to the Placement.

The issue of the shares to the vendors of SFUK and the issue of the Placement shares are subject to approval by Emerchants shareholders.

Implementation of the Acquisition

To give effect to the acquisition, Emerchants and the Vendors have entered into a Share Sale Agreement ("SSA"). Under the SSA certain conditions must be satisfied prior to completion of the acquisition, including obtaining:

- A favourable opinion from an independent expert engaged by Emerchants as to whether the acquisition is fair and reasonable; and
- Emerchants shareholder approval.

The SSA and proposed employment agreements with SFUK management also include provision for additional share grants to ensure key SFUK personnel are retained and motivated to remain part of the company and incentivised as the EBITDA of SFUK expands. The grants are:

- 1.5 million Emerchants shares as a Retention Grant to David Shewmaker (CEO) and the other key SFUK personnel. Shares will vest in three equal tranches over three years and are subject to service and performance vesting conditions, including achievement of SFUK EBITDA forecast.
- Bonus Share Grants to SFUK management, payable on SFUK implementing two significant new shopping mall contracts. The value of the Bonus Share Grants and the number of Emerchants shares to be issued are to be calculated:
 - Value equal to 3x CY16 EBITDA contribution from the contracts; and
 - Emerchants share price to be the 5-day VWAP to the date of contract execution.

Bonus Share Grant shares will be issued at the time of contract signing and will be escrowed for 12 months post-issuance.

Corporate Governance

Tom Cregan, Managing Director of Emerchants, holds a significant shareholding in SFUK and was a founding investor in the company.

In early 2013, the Emerchants Board asked Tom Cregan to provide an overview of international prepaid markets and acquisition opportunities. The Board determined Europe to be the most attractive market to target first. The Emerchants Board was aware of Tom Cregan's involvement with SFUK at that time and the independent directors determined SFUK should be approached for discussions.

In view of Tom Cregan's involvement with SFUK, he has excluded himself from all discussions, negotiations and Emerchants Board deliberations in connection with the proposed acquisition. The Board of Emerchants established an independent committee to assess and consider the acquisition and the committee appointed Robert Browning to negotiate the transaction and sale agreement directly with SFUK's CEO, David Shewmaker. The committee also commissioned an independent valuation of SFUK. The valuers determined SFUK's fair value to be in the range of \$28.5 to 32.7 million.

The independent directors of Emerchants have resolved to unanimously recommend the acquisition and capital raising to Emerchants shareholders, subject to a satisfactory independent expert opinion from Ernst & Young.

Indicative Timetable

The acquisition and Placement are subject to shareholder approval by ordinary resolution at Emerchants Annual General Meeting, scheduled to take place on 13 November 2014. Certain parties will be excluded from voting.

A Notice of Meeting and an Explanatory Memorandum, which will include an Independent Expert's Report, will be sent to shareholders shortly.

A summary of the proposed timetable for the transaction is outlined below.

Key event	Expected date
Distribution of explanatory memorandum and notice of meeting to Emerchants shareholders	Mid October 2014
Annual General Meeting and shareholder vote	13 November 2014
Settlement of the Placement	17 November 2014
Allotment and issue of Placement shares	18 November 2014
Completion of the acquisition and issue of shares to Vendors	Late November 2014

Further Information

Shareholders are advised to refer to the investor presentation released to the ASX for further details of the acquisition and capital raising. It is proposed that the Notice of Meeting, together with the Explanatory Memorandum, will be available in mid-October 2014.

-ENDS-

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About Emerchants Limited

Emerchants is led by Managing Director, Mr Tom Cregan, and is a financial services company that specialises in the pre-paid financial card market. Emerchants is focused on the twin goal of delivering high quality payment systems to its customers and superior returns to its shareholders.