

# Proposed Acquisition of Store Financial Services UK (SFUK)

## Important Notice

### Important Notice and Disclaimer

This investor presentation (**Presentation**) has been prepared by Emerchants Limited ABN 93 104 757 904 (**EML**) in relation to EML's proposed acquisition of Store Financial Services UK Ltd (**SFUK**), which involves an institutional placement of new EML ordinary shares (**New Shares**) to be made under section 708A of the Corporations Act 2001 (Cth).

This Presentation contains summary information about EML and SFUK which is current as at the date of this Presentation. The information in this presentation is of a general nature and does not purport to be complete nor does it contain all the information which a prospective investor may require in evaluating a possible investment in EML or that would be required in a prospectus or product disclosure statement prepared in accordance with the requirements of the Corporations Act 2001 (Cth).

This Presentation is not a prospectus, product disclosure statement or other offering document under Australian law (and will not be lodged with ASIC) or any other law. This presentation is for information purposes only and is not an invitation or offer of securities for subscription, purchase or sale in any jurisdiction (and will not be lodged with the U.S Securities Exchange Commission).

This Presentation does not constitute investment or financial product advice (nor tax, accounting or legal advice) or any recommendation to acquire entitlements or New Shares and does not and will not form any part of any contract for the acquisition of entitlements or New Shares. Each recipient of this Presentation should make its own enquiries and investigations regarding all information in this Presentation including but not limited to the assumptions, uncertainties and contingencies which may affect future operations of EML and the impact that different future outcomes may have on EML.

This Presentation has been prepared without taking into account of any person's individual investment objectives, financial situation or particular needs. Before making an investment decision, prospective investors should consider the appropriateness of the information having regard to their own investment objectives, financial situation and needs and seek legal, accounting and taxation advice appropriate to their jurisdiction. An investment in EML shares is subject to known and unknown risks, some of which are beyond the control of EML. EML does not guarantee any particular rate of return or the performance of EML. Investors should have regard to the key risks outlined in this Presentation when making their investment decision.

# Contents

1. Executive summary
2. Overview of SFUK
3. Acquisition terms and funding
4. EML post-acquisition
5. Conclusion

Appendices

# Executive Summary

<b>Acquisition</b>	<ul style="list-style-type: none"> <li>• EML has agreed to acquire 100% of Store Financial Services UK Ltd (“<b>SFUK</b>”)</li> <li>• Acquisition price of A\$24.9 million<sup>(1)</sup> – 9.3x pro forma EBITDA<sup>(2)</sup></li> <li>• Acquisition consideration comprises 50% cash and 50% EML scrip</li> <li>• Acquisition subject to approval by ordinary resolutions (&gt;50%) at AGM in November 2014</li> </ul>
<b>Corporate Governance</b>	<ul style="list-style-type: none"> <li>• EML Board identified European expansion and SFUK as acquisition target, independent of Tom Cregan</li> <li>• Tom Cregan is a 25% shareholder in SFUK and has excluded himself from negotiations and EML deliberations</li> <li>• Bob Browning (chairman) negotiated transaction and sale agreement directly with SFUK’s CEO</li> <li>• EML commissioned an independent valuation by Valuation Research Corp. (\$A28.5 – 32.7 million)</li> <li>• The independent directors of EML have unanimously resolved to recommend the acquisition to shareholders, subject to a satisfactory Independent Expert opinion from Ernst and Young</li> </ul>
<b>Overview of SFUK</b>	<ul style="list-style-type: none"> <li>• A leading provider of prepaid stored value programs in 9 European countries, including the UK</li> <li>• Operating in the European market since 2008</li> <li>• Offers a range of non-reloadable and re-loadable prepaid products, with closed-loop shopping mall card programs representing 85% of funds loaded</li> <li>• Key shareholders include Store Financial Services LLC (“<b>Store</b>”) (40%), David Shewmaker – CEO (30%) and Tom Cregan – Director (25%)</li> </ul>
<b>Strategic Rationale</b>	<ul style="list-style-type: none"> <li>• <b>Established, profitable business:</b> track record of success, long-term customer relationships, profitable</li> <li>• <b>Significant growth opportunities:</b> European market 10x Australia’s with growth forecasts in excess of 20% pa</li> <li>• <b>Accelerates EML towards profitability:</b> SFUK acquisition is immediately earnings accretive<sup>(3)</sup> and contributes profit and cash in FY15</li> <li>• <b>Accelerates market entry pathway for EML:</b> significant opportunity for EML to expand reloadable offering into Europe, leveraging Australian experience, particularly in sectors such as gaming</li> <li>• <b>Diversification:</b> reduces revenue concentration risk for EML in the near term</li> <li>• <b>Low integration risk:</b> highly experienced management team; little or no operational change expected</li> </ul>

<sup>(1)</sup> Purchase price excludes transaction costs associated with the acquisition and capital raising, retention share grant and bonus share grants

<sup>(2)</sup> Forecast EBITDA for CY15, representing the first full 12 months under EML management. Assumes AUD:GDP of 0.55

<sup>(3)</sup> Before intangibles amortisation, transaction and integration costs associated with the acquisition and capital raising, retention share grant and bonus share grants

# Executive Summary

<b>Funding</b>	<ul style="list-style-type: none"> <li>• Acquisition costs of \$24.9m plus \$1.5m for transaction costs and working capital</li> <li>• Funded by:             <ul style="list-style-type: none"> <li>• Placement to institutional and sophisticated investors to raise \$14.0m at \$0.50 per share</li> <li>• \$12.45m equity placement to the vendors at \$0.50 per share (20% escrowed for 12 months)</li> <li>• EML Board of Directors have committed \$515K in funding towards the placement</li> </ul> </li> </ul>
<b>Escrow and Share Trading</b>	<ul style="list-style-type: none"> <li>• 20% of the equity placement to the vendors held in escrow for 12 months from completion<sup>(1)</sup></li> <li>• Shares issued as consideration to Store must notify EML in advance and provide EML with the opportunity to effect an off-market crossing</li> </ul>
<b>Additional Share Issues</b>	<ul style="list-style-type: none"> <li>• “Retention Share Grant” of 1.5m EML shares to be issued to SFUK executives, vesting in equal tranches over three years, subject to service and performance conditions, including achievement of SFUK EBITDA forecast</li> <li>• “Bonus Share Grants” to SFUK executives, issued on implementation of two significant new contracts             <ul style="list-style-type: none"> <li>• Value of grant equal to 3x CY16 forecast EBITDA contribution from the contract</li> <li>• Issue price based on the 5-day VWAP of EML shares at the date of contract signing</li> <li>• Escrowed for 12 months from the date of issue</li> </ul> </li> </ul>
<b>Financial Impact</b>	<ul style="list-style-type: none"> <li>• The proposed transaction is expected to be immediately earnings accretive to EML shareholders<sup>(2)</sup></li> <li>• 70% of customers, representing 91% of revenues, are on long term agreements</li> <li>• EML anticipates that SFUK will contribute \$2.7m in EBITDA and \$2.1m in NPAT in CY15<sup>(3)</sup></li> <li>• EML will become cash flow positive in 2H FY15 and be positioned for material EBITDA growth in FY16</li> <li>• Material earnings upside from:             <ul style="list-style-type: none"> <li>• Continuation of historical growth rates, with highly predictable revenue and earnings contribution</li> <li>• Two significant new shopping mall contracts targeted, projected to add A\$0.4m to CY15 EBITDA</li> <li>• Incremental revenue from re-loadable programs using the EML re-loadable technology</li> </ul> </li> </ul>

<sup>(1)</sup> As employees of EML, shares owned by Tom Cregan and David Shewmaker will also be subject to EML’s share trading policy

<sup>(2)</sup> Before intangibles amortisation, transaction and integration costs associated with the acquisition and capital raising, retention share grant and bonus share grants

<sup>(3)</sup> On a full-year pro forma basis, before intangibles, transaction and integration costs, based on a AUD:GBP exchange rate of 0.55

# Introduction to SFUK

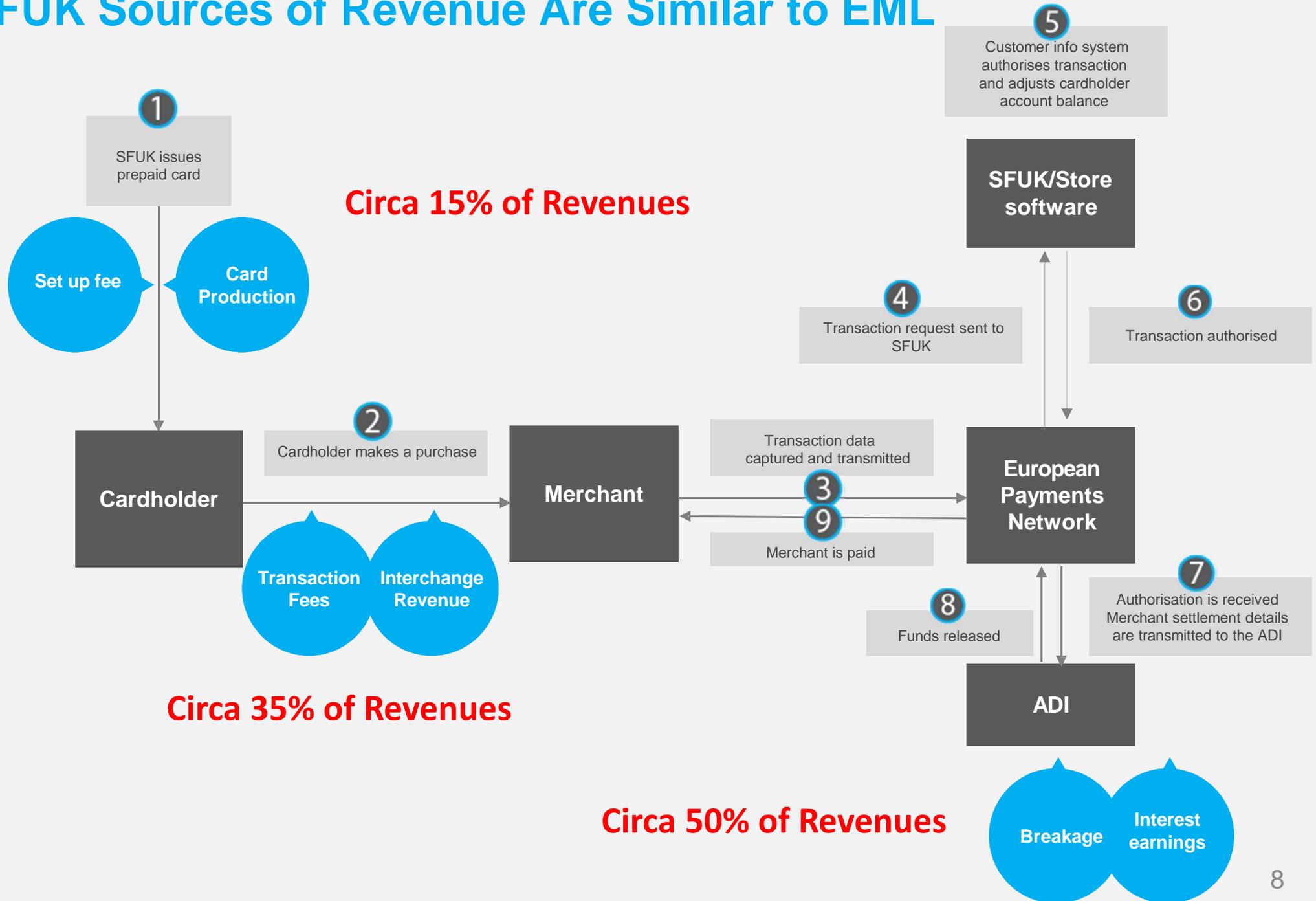
- **SFUK is Europe's largest shopping mall gift card provider**
  - Over 100 gift card programs in 9 European countries
  - 15 malls in current pipeline for launch in next 3 months
  - 70% of clients representing 91% of volume have extended their agreements for 5 years
- **SFUK is an affiliate company of Store Financial Services LLC, based in the USA**
  - The world's largest provider of shopping mall programs, with over 800 programs in 11 countries
  - 46,000,000 gift cards issued since inception representing €2 billion in loads
- **SFUK uses technology built for shopping malls not adapted for shopping malls**
  - Over 10 years of shopping mall gift card experience
  - All functionality designed specifically for shopping malls
  - SFUK has a 7 year processing agreement to access Store's platform for mall gift cards
- **Key management personnel retained and have significant growth incentives**
  - David Shewmaker – Founder and CEO
  - Stuart Green – Managing Director
  - Dave Burchnall – Finance Director
  - Alison Werrett – Director of Client Services

# Key SFUK Customers

- Kleppierre (Spain, Portugal & Italy)
- Devimo (Belgium)
- Lend Lease Portfolio
- Land Securities Portfolio
- McArthur Glen Portfolio (6 Countries)
- Corio (Germany)
- Gentalia (Spain)
- British Land Portfolio
- Regent Street
- Standard Life Portfolio
- BTWShiells Portfolio
- REALM Portfolio
- Pandora
- Etsy
- The Horticultural Trade Association
- Liverpool Football Club

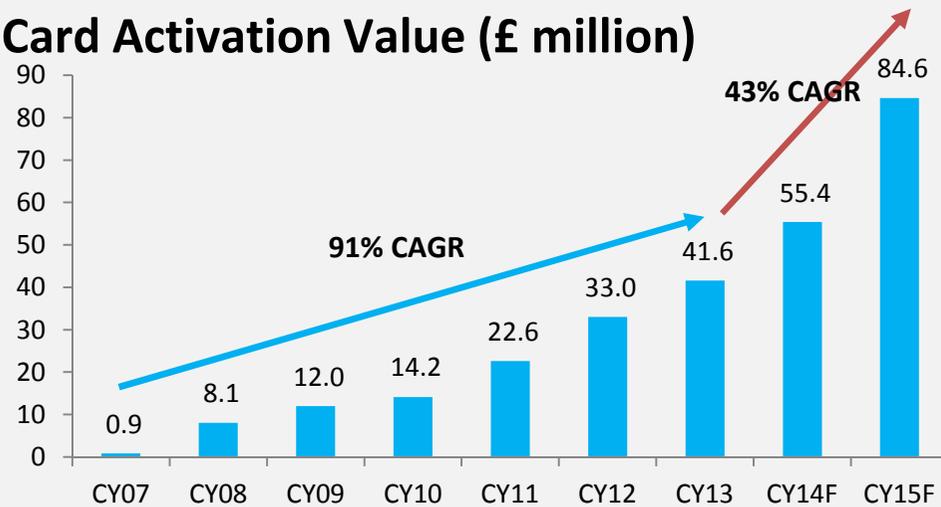


# SFUK Sources of Revenue Are Similar to EML

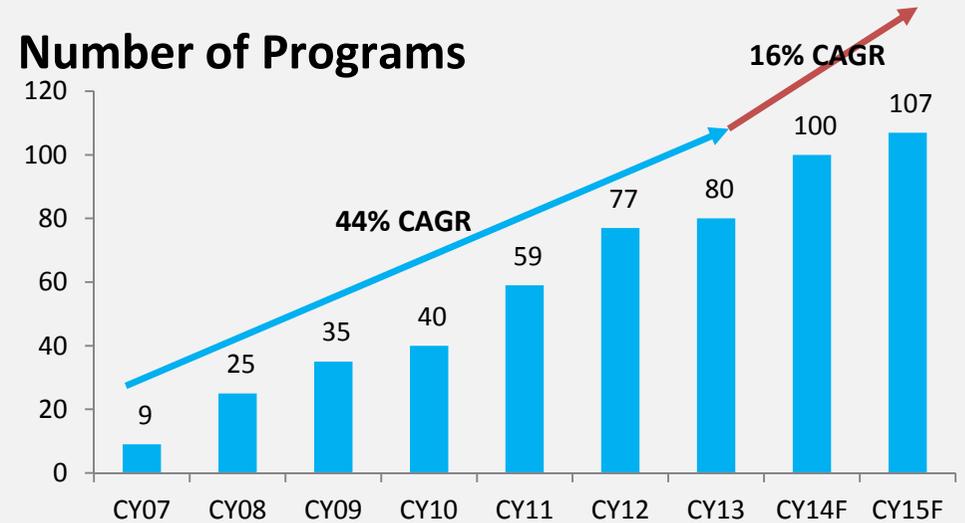


# SFUK track record of growth

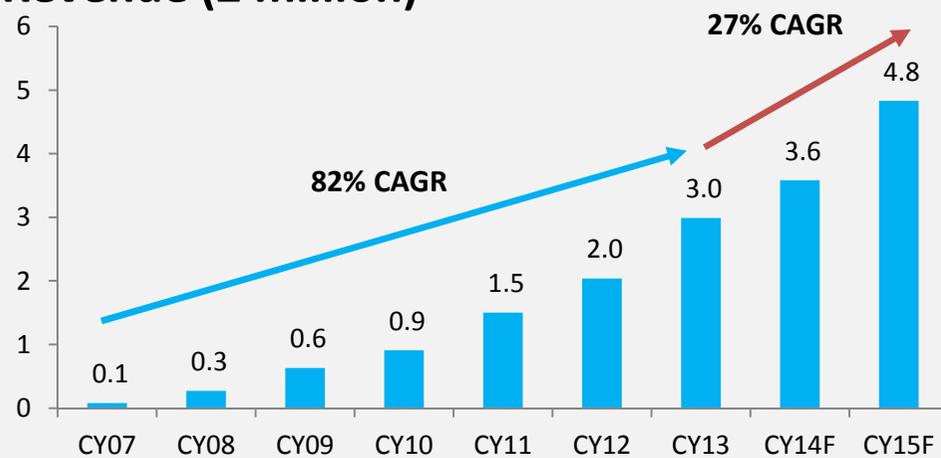
## Card Activation Value (£ million)



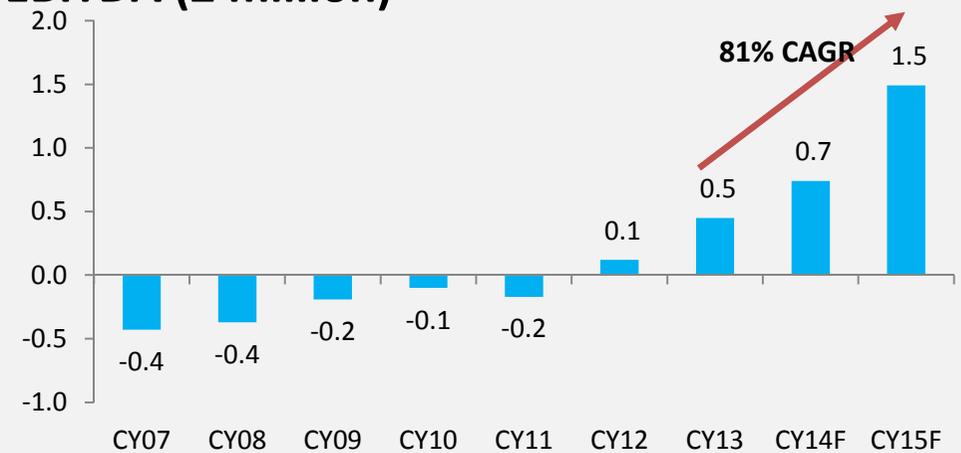
## Number of Programs



## Revenue (£ million)



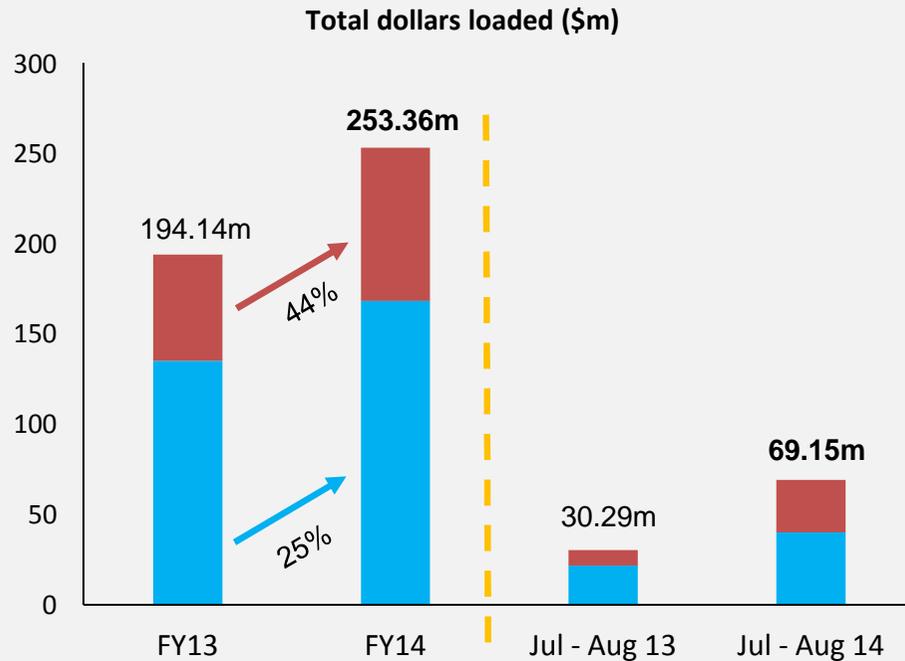
## EBITDA (£ million)



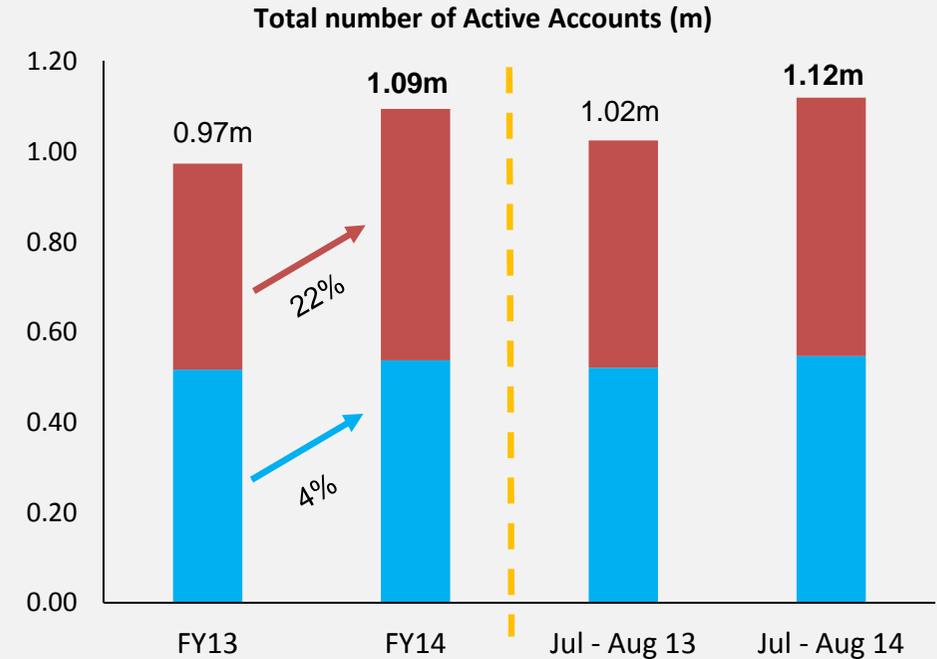
# Pro forma\* Performance Metrics

FY14 vs. FY13 and trading update to August 2014

■ SF UK METRICS  
■ EMERCHANTS METRICS



**Aug 14 YTD vs. Aug 13 YTD:  
Total Dollars Loaded: +128%**



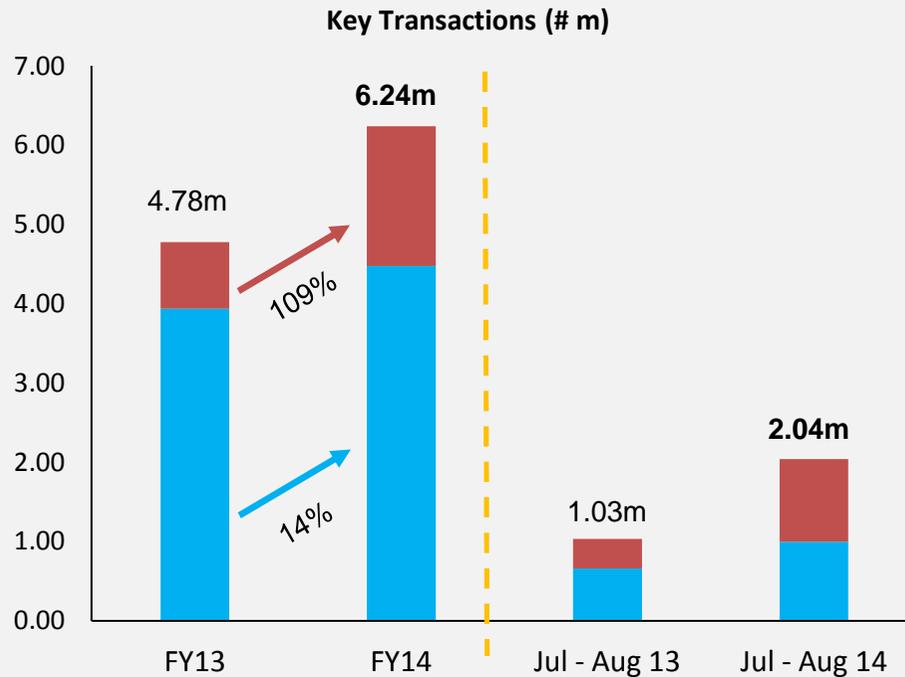
**Aug 14 vs. Aug 13:  
Number of Active Accounts: +10%**

\* The metrics above include the results of SFUK assuming they were part of the EML consolidated group for the entire period under review. Metrics in GBP have been converted to AUD at the closing exchange rates for each period.

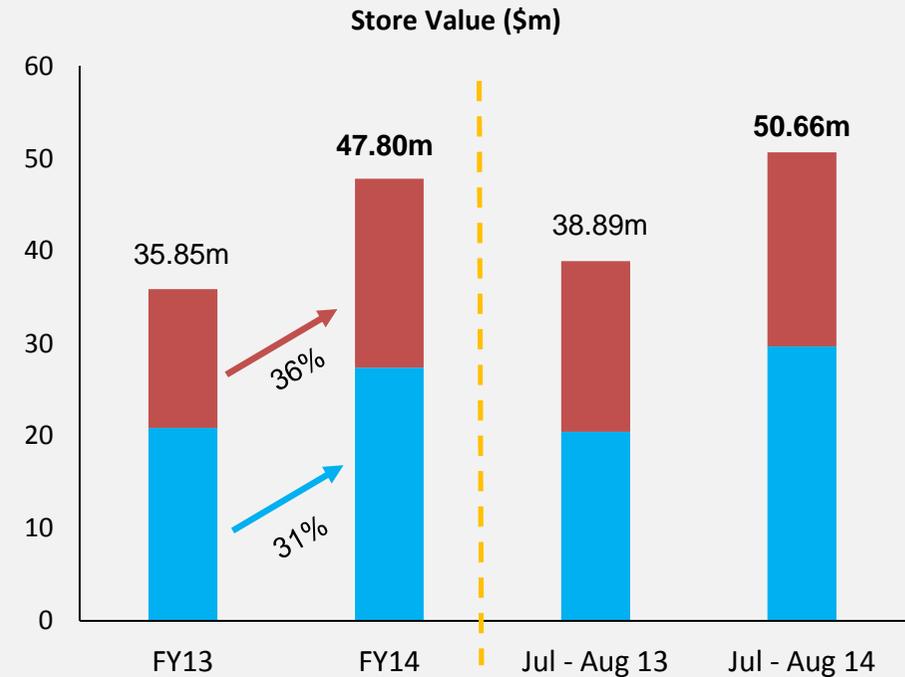
# Pro forma\* Performance Metrics

FY14 vs. FY13 and trading update to August 2014

■ SF UK METRICS  
■ EMERCHANTS METRICS



**Aug 14 YTD vs. Aug 13 YTD:  
Total Transactions: +98%**



**Aug 14 vs. Aug 13:  
Total Stored Value: +30%**

\* The metrics above include the results of SFUK assuming they were part of the EML consolidated group for the entire period under review. Metrics in GBP have been converted to AUD at the closing exchange rates for each period.

## Key Transaction Details

- **Purchase price of A\$24.9 million<sup>(1)</sup> to be paid 50% cash and 50% EML scrip**
  - Represents 9.3x pro forma EBITDA<sup>(2)</sup>
  - Cash component to be funded via a \$14 million placement to institutional and sophisticated investors
  - Equity component satisfied through the issue of 24.9 million EML shares at \$0.50 per share (20% subject to 12 month escrow)
- **Completion expected late November 2014, conditional on:**
  - Key management signing executive services agreements
  - Independent expert finding the transaction to be fair and reasonable
  - Amendments to transaction processing agreement with Store to EML's satisfaction
  - Approvals at the EML AGM to be held 13 November 2014
- **“Retention Share Grant” of 1.5 million EML shares**
  - To be granted to SFUK executives
  - Vesting in equal tranches over three years
  - Subject to service and performance conditions, including achievement of SFUK EBITDA forecast
- **“Bonus Share Grants” to SFUK executives, issued on implementation of two significant new contracts**
  - Value of grant equal to 3x CY16 forecast EBITDA contribution from the contract
  - Issue price based on the 5-day VWAP of EML shares at the date of contract signing
  - Escrowed for 12 months from the date of issue

<sup>(1)</sup> Purchase price excludes transaction costs associated with the acquisition and capital raising, retention share grant and bonus share grants

<sup>(2)</sup> Forecast EBITDA for CY15, representing the first full 12 months under EML management. Assumes AUD:GDP of 0.55

# Why acquire a European non-reloadable prepaid provider?

- **EML has reviewed opportunities for growth beyond Australia**
  - Europe is the most attractive option to target first
- **Greenfield market entry into Europe not a practical or viable option**
- **Valuations for re-loadable companies are significantly higher than those focused on non-reloadable, particularly early stage companies with high growth prospects:**
  - Highly unlikely EML could afford to acquire a re-loadable prepaid company (reference: CorporatePay UK transaction)
- **EML's recent negotiations with corporate bookmakers in Australia has brought EML to the attention of European corporate bookmakers**
  - EML has identified business prospects in the UK and Europe that can be commercialised in the next 12 months
- **Non re-loadable acquisition targets are cheaper and EML has inside knowledge of SFUK, its operations, history and capabilities, given Tom Cregan's historic shareholding and involvement**
- **The non-reloadable businesses of EML and SFUK are fundamentally different:**
  - EML focuses on consumer cash-back rebate programs (e.g. \$50 cash back card from Fujitsu when you buy an air conditioner) sold by Edge Loyalty (Village Roadshow). That business is based around promotional activity, meaning it is generally short-term and transactional. It has reached saturation domestically
  - SFUK focuses on shopping mall prepaid programs (e.g. Westfield gift card that can be used in any retail outlet in a Westfield shopping centre) that involve longer term contracts with highly predictable, recurring revenues more in keeping with a re-loadable business

# Strategic Rationale

<b>Established and profitable business</b>	<ul style="list-style-type: none"> <li>• SFUK has been operating in Europe since 2008 and is operational in 9 countries, including the UK</li> <li>• Profitable since 2012</li> <li>• Over 100 programs with 70% of clients representing 91% of volume contracted for 5 years</li> <li>• Affiliated with Store, one of the world's largest providers of shopping mall programs</li> </ul>
<b>Significant growth opportunities</b>	<ul style="list-style-type: none"> <li>• The acquisition will provide EML with access to a market estimated to be ~10x size of Australia's</li> <li>• Market forecasts suggest growth rates &gt;20% pa for an anticipated market of ~€150 billion by 2017</li> <li>• SFUK has established a leading position in the non-reloadable market, with highly predictable revenues, strong organic growth rates and a pipeline of new business</li> </ul>
<b>Accelerates EML towards profitability</b>	<ul style="list-style-type: none"> <li>• SFUK is anticipated to contribute profit and cash in FY15</li> <li>• Acquisition is immediately earnings accretive<sup>(1)</sup></li> </ul>
<b>Accelerates market entry pathway for EML</b>	<ul style="list-style-type: none"> <li>• European market entry requires significant banking, regulatory and operational investment and expertise</li> <li>• SFUK existing presence facilitates EML offering reloadable prepaid products in the near term, with modest incremental investment</li> <li>• EML has had multiple discussions with potential European customers, and has already signed one LOI with a UK-based bookmaker, with product launch targeted within 12 months facilitated via the SFUK acquisition</li> <li>• Opportunity to leverage EML's reloadable payment applications onto SFUK's existing business</li> </ul>
<b>Diversification</b>	<ul style="list-style-type: none"> <li>• EML's Australian revenues concentrated with 3-4 key relationships today</li> <li>• SFUK assists in reducing reliance on those existing relationships and provides diversification of revenue</li> </ul>
<b>Low integration risk</b>	<ul style="list-style-type: none"> <li>• Experienced management team remaining with the business with strong incentives to drive future growth</li> <li>• Founder and CEO, David Shewmaker has committed for 3 years and has significant incentives to grow revenue</li> <li>• Day-to-day operations and branding remain unchanged</li> </ul>

<sup>(1)</sup> Before intangibles amortisation, transaction and integration costs associated with the acquisition and capital raising, retention share grant and bonus share grants.

# Equity raising

<b>Structure</b>	<ul style="list-style-type: none"> <li>• Placement to institutional and sophisticated investors</li> <li>• Conditional on shareholder approval at AGM to be held 13 November 2014</li> </ul>
<b>Placement Size</b>	<ul style="list-style-type: none"> <li>• \$14 million</li> <li>• 28.0 million new shares (~15.8% of pro forma issued capital, including the issue of 24.9 million new shares to the vendors of SFUK)</li> </ul>
<b>Placement Price</b>	<ul style="list-style-type: none"> <li>• Fixed offer price of \$0.50 per share:             <ul style="list-style-type: none"> <li>• 0% discount to EML' share price on 23 September 2014 (\$0.50)</li> <li>• 2.9% discount to EML' 5-day VWAP (\$0.515)</li> </ul> </li> </ul>
<b>Use of Funds</b>	<ul style="list-style-type: none"> <li>• \$12.45 million acquisition consideration, \$1.55m transaction costs and working capital</li> </ul>
<b>Timing</b>	<ul style="list-style-type: none"> <li>• Books close on 25 September 2014 at 12:00pm (Sydney time)</li> </ul>
<b>Ranking</b>	<ul style="list-style-type: none"> <li>• The new shares will be fully paid and rank equally with EML's existing issued shares (subject to approval at EML's AGM to be held 13 November 2014)</li> </ul>
<b>Lead Manager</b>	<ul style="list-style-type: none"> <li>• Wilson HTM Corporate Finance Ltd</li> </ul>
<b>Timetable</b>	<ul style="list-style-type: none"> <li>• AGM – Thursday, 13 November 2014</li> <li>• Settlement – Monday, 17 November 2014</li> <li>• Allotment – Tuesday, 18 November 2014</li> <li>• Quotation – Tuesday, 18 November 2014</li> </ul>

# Key Risks

There are a number of risks, both specific to EML and of a general nature, which may affect the future operating and financial performance of EML, its investment returns and the value of its securities. Many of the circumstances giving rise to these risks are beyond the control of EML. This section describes certain specific areas that are believed to be the major risks associated with an investment in EML. Each of the risks described below could, if they eventuate, have a material adverse effect on EML operating and financial performance. You should note that the risks in this section are not exhaustive. You should consider carefully the risks described in this section, as well as other information in this presentation, and consult your financial or other professional adviser before making an investment decision.

## Specific Risks

- **Completion Risk:** Completion of the Acquisition is conditional on certain matters, including obtaining shareholders' approval. If any of the conditions are not met, completion of the Acquisition may be deferred or cancelled. Failure to complete this transaction may have a material adverse effect on EML's financial performance, financial position and security price.
- **Reliance on Information Provided:** EML undertook a due diligence process in respect of SFUK, which relied in part on the review of financial and other information provided by the vendors of SFUK. Despite taking reasonable efforts, EML has not been able to verify the accuracy, reliability or completeness of all the information which was provided to it against independent data. Similarly, EML has prepared (and made assumptions in the preparation of) the financial information relating to SFUK on a stand-alone basis and also to EML post-acquisition included in this Presentation in reliance on limited financial information and other information provided by the vendors of SFUK. EML is unable to verify the accuracy or completeness of all of that information. If any of the data or information provided to and relied upon by EML in its due diligence process and its preparation of this Presentation proves to be incomplete, incorrect, inaccurate or misleading, there is a risk that the actual financial position and performance of SFUK and the combined group may be materially different to the financial position and performance expected by EML and reflected in this Presentation. Investors should also note that there is no assurance that the due diligence conducted was conclusive and that all material issues and risks in respect of the acquisition have been identified. Therefore, there is a risk that unforeseen issues and risks may arise, which may also have a material impact on EML.
- **Market Risk:** The European prepaid financial card market might not achieve the growth rates as forecast by a number of consulting firms and the payment schemes, which would likely impact the value of SFUK and the combined group.
- **ADI Risks:** SFUK has one issuing bank for the UK and Europe, and a second is required to ensure redundancy. It is possible that the current authorised deposit institution (**ADI**) will not support initiatives in the gambling sector, requiring SFUK to identify and agree commercial terms with another suitable ADI.
- **Exchange rates:** EML has used a foreign exchange rate of AUD/GBP of 0.55 in assessing the financial performance of SFUK which in turn is critical to the value of SFUK. If the Australian dollar was to strengthen relative to the Pound EML's earnings from the SFUK subsidiary will be adversely impacted.
- **Interest rates:** Interest rates in the UK are at historic lows but it is possible for interest rates to decline to zero which would also impact future earnings of EML.
- **Store Financial LLC:** EML will not be converting the processing of non-reloadable transactions from Store Financial LLC to EML, as the potential savings do not outweigh the operational impacts. SFUK will therefore, remain reliant on Store Financial LLC's processing platform following the Acquisition. If Store Financial LLC experiences technical difficulties which impacts on SFUK customers it could lead to possible loss of customers and resultant loss of revenue.

# Key Risks

## Specific Risks (continued)

- **Customer loss:** SFUK has not lost a customer since inception but it is possible that customer loss could result from the acquisition or other external factors. SFUK has a high client concentration (as its top ten shopping centre clients account for approximately 85% of sales revenue), therefore, client loss could significantly impact SFUK's revenues and earnings. EML considers that retention of key employees will mitigate customer loss as a result of the acquisition.
- **Competition:** There are a number of competitors in the UK and Europe in the prepaid financial card market and competitive pressure could intensify in the coming years, leading to lower growth or a contraction in margins.
- **Economic risk:** SFUK has operated through a number of UK and European recessions since commencing operations. However, it is possible that the UK and broader European region will experience continued periods of low or nil economic growth and that certain European Union member states experience sovereign default risk, which could impact on SFUK's financial and operating performance.
- **Asset impairment:** EML has undertaken a number of asset impairment tests with its auditors in the past and no impairment has been recorded, however it is possible that a future impairment is recorded against the Australian business and/or SFUK.
- **Changes in accounting policy:** SFUK will convert to the EML accounting treatment with respect to breakage, as agreed with its auditors. It is possible that future accounting advice requests a change to the treatment of breakage which would impact the timing of breakage revenues.
- **Taxation:** The Acquisition will result in EML also being exposed to risk from changes to taxation legislative regimes in the UK and Europe. Should taxation rates in the UK and Europe increase this could depress post-tax profits from SFUK.
- **Legislative or regulatory changes:** SFUK's business is impacted by the regulatory regime of the prepaid financial card industry in Europe and the UK. Enactment or revision to these laws or regulations or a change in their enforcement as practiced by prior or existing governments, could prevent SFUK from conducting business activities as anticipated, or have other effects with a consequent impact on SFUK's operations and financial position. These could include a regulatory change with respect to regulating breakage, a regulatory change with respect to determining interchange rates, rules relating to the identification of customers or requirements imposed on SFUK by the payment schemes (Visa, MasterCard).
- **Personal information/privacy laws:** Conflicting data protection rules in Australia to the European Union and the UK in relation to personal information may disrupt international exchanges in personal information and individuals may be unwilling to transfer personal data abroad if they were not guaranteed that the level of protection in Australia was on a par with that offered in Europe and/or the United Kingdom. This could impact on the eventual integration of SFUK with EML.
- **Insurance:** It is possible that SFUK's insurance does not cover all potential exposures and insurance coverage may not be available or may not be adequate to cover any resulting liability from information technology systems which SFUK relies on to carry on its business or other risks associated with carrying on its business.

# Key Risks

## Specific Risks (continued)

- **Integration risk:** Although it is intended that SFUK will remain operationally independent from EML in the short term the acquisition will necessitate financial integration of the SFUK business, which had previously operated independently from EML. As a result, there is a risk that the integration of SFUK may be more complex than currently anticipated, encounter unexpected challenges or issues and take longer than expected, divert management attention or not deliver the expected benefits and this may affect EML's operating and financial performance.
- **Historic liabilities:** If the acquisition completes, EML will become directly or indirectly liable for any liabilities that SFUK has incurred in the past, including those which were not identified during its due diligence or which are greater than expected, and for which the protection (in the form of insurance, representations and warranties and indemnities) negotiated by EML prior to its agreement to acquire SFUK turns out to be inadequate in the circumstances. Such liability may adversely affect the financial performance or position of EML post-acquisition.
- **Hostilities, terrorism and other external events:** The acquisition will result in EML operating in Europe and the UK this will expose EML to greater risk of being adversely impacted by international hostilities or war, acts of terrorism, epidemics or outbreaks of disease, political or social instability, natural disasters and weather effects. As well as changes in the political climate of Europe and the UK. These events may impact EML's operating and financial performance

## General risks

- Other than the specific risks identified above, the price at which EML shares trade on the ASX may be determined by a range of factors, including inflation, interest rates and exchange rates, changes to government policy, legislation or regulation, the nature of competition in the Australian prepaid financial card market, inclusion or removal from major market indices and other general operational and business risks. The market for EML shares may also be affected by a wide variety of events and factors, including variations in EML's operating results, recommendations by securities analysts, and the operating and trading price performance of other comparable listed entities. Some of these factors could affect EML's share price regardless of EML's underlying operating performance.