

29 January 2016

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

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## APPENDIX 4C – Q2FY16 QUARTERLY CASH FLOW STATEMENT

### Emerchants announces 1HFY16 EBITDA of \$3.06M, a 467% improvement over 1HFY15

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Please find attached the Appendix 4C “Quarterly Report” for Emerchants Limited (**Company** or **Group**) for the quarter (**Q2FY16**) and 6 months to 31 December 2015 (**1HFY16**). The following are additional explanatory notes to be read in conjunction with the Report.

## Strong increase in operating metrics for Q2FY16 and 1HFY16

### *Australian Reloadable segment*

The Australian Reloadable segment experienced strong growth across all operating metrics with Total funds loaded up 89%, Transactions up 49% and Stored Value up 10% over the prior quarterly comparative period. The growth has been driven by the continued strong performance of our existing disbursement and online wagering clients, including Ingogo, Ladbrokes, Sportsbet and CC Investment Group (Cash Converters franchisee) and the part year impacts from newly launched clients including Crownbet (launched August 2015) and bet365 (launched August 2015).

Metrics from our online consumer lending segment declined over the over the prior comparative period due to industry specific factors, but we expect that decline to settle in the second half of the financial year. The imminent launch of our EachWay® cash loads product in early Q4, the launch of the William Hill payment card, and the full year impacts of growth in online wagering clients will result in significant continued growth in this segment.

In addition, the Cash Converters program will go live into all corporate stores on February 1 and we have commenced the sales process into the remaining 55 franchisee locations. The corporate stores program was originally scheduled to launch in November 2015 and we incurred plastic costs in Q2FY16 associated with that original date that is reflected in our cash flows.

### *Australian Non-Reloadable segment*

Our non-reloadable business continues to perform as expected. At 31 December 2015 we had a carried forward breakage accrual relating to the Australian Non-Reloadable segment of \$1.56M (vs \$0.62M at 1HFY15), all of which will convert to cash within the next 12 months. Volume loads and other key metrics are in line with management expectations.

### *European Non-Reloadable segment*

The Q2FY16 and first half results for Europe were particularly strong with Total funds loaded up 133%, Transactions up 98% and Stored Value up 59% over the prior quarterly comparative period. This growth has been underpinned by the full period impacts of newly launched clients (Hammersons and MFI) and strong same store annual growth rates. We have been able to secure double digit same store growth owing to the increased popularity of prepaid cards within Europe, focused account management and marketing initiatives we have implemented in conjunction with the shopping malls and the release of new product features to expand store sales.

Our European Non-Reloadable segment traditionally generates over half of its annual funds load in Q2 due to the Christmas season. Growth rates over the prior comparative period were also significantly higher across all operating metrics due to these initiatives and the fact that the prior period only included the results of the European operations for 1 month due to the acquisition occurring on 1 December 2014.

At 31 December 2015 we had a carried forward breakage accrual relating to the European Non-Reloadable segment of \$4.08M (vs \$0M at 1HFY15), all of which will convert to cash within the next 12 months. In total, the breakage accrual for the Group stands at \$5.69M versus \$3.96M as at year end FY15, reflective of increased gift card sales volumes across both Australia and Europe, with quarter end active accounts increasing from 1.52M to 2.12M.

*Table 1: Emerchants key operating metrics*

A\$ Thousands	Q2FY15			FY15			Q2FY16			FY16		
	Australia	Europe	Group	Australia	Europe <sup>1</sup>	Group	Australia	Europe <sup>1</sup>	Group	Australia	Europe <sup>1</sup>	Group
A\$ Total Funds loaded [2]	93,982	37,226	131,208	156,779	37,226	194,005	150,104	86,582	236,686	268,123	115,295	383,418
% Change on pcp	96%	n/a	174%	97%	n/a	143%	60%	133%	80%	71%	210%	98%
Reloadable	60,278	-	60,278	100,572	-	100,572	113,754	-	113,754	204,986	-	204,986
1% Change on pcp	242%	n/a	242%	215%	n/a	215%	89%	n/a	89%	104%	n/a	104%
Non-Reloadable / Gift	33,704	37,226	70,930	56,207	37,226	93,433	36,350	86,582	122,932	63,137	115,295	178,432
% Change on pcp	11%	n/a	134%	17%	n/a	95%	8%	133%	73%	12%	210%	91%
No. key transactions[3]	2,155	420	2,575	3,679	420	4,099	2,909	834	3,742	5,224	1,399	6,623
% Change on pcp	78%	n/a	113%	69%	n/a	89%	35%	98%	45%	42%	233%	62%
Reloadable	889	-	889	1,521	-	1,521	1,328	-	1,328	2,422	-	2,422
% Change on pcp	263%	n/a	263%	239%	n/a	239%	49%	-	49%	59%	n/a	59%
Non-Reloadable / Gift	1,266	420	1,686	2,158	420	2,578	1,581	834	2,415	2,802	1,399	4,201
% Change on pcp	31%	n/a	75%	25%	n/a	50%	25%	98%	43%	30%	233%	63%
No. active accounts > A\$0 [4]	678	948	1,626	678	948	1,626	749	1,497	2,246	749	1,497	2,246
% Change on pcp	15%	n/a	175%	15%	n/a	175%	10%	58%	38%	10%	58%	38%
Reloadable	97	-	97	97	-	97	120	-	120	120	-	120
% Change on pcp	120%	n/a	120%	120%	n/a	120%	23%	n/a	23%	23%	n/a	23%
Non-Reloadable / Gift	580	948	1,528	580	948	1,528	629	1,497	2,126	629	1,497	2,126
% Change on pcp	6%	n/a	179%	6%	n/a	179%	8%	58%	39%	8%	58%	39%
A\$ Stored Value [5]	43,579	47,617	91,196	43,579	47,617	91,196	55,567	75,932	131,499	55,567	75,932	131,499
% Change on pcp	47%	n/a	207%	47%	n/a	207%	28%	59%	44%	28%	59%	44%
Reloadable	16,538	-	16,538	16,538	-	16,538	18,203	-	18,203	18,203	-	18,203
% Change on pcp	109%	n/a	109%	66%	n/a	109%	10%	n/a	10%	10%	n/a	10%
Non-Reloadable / Gift	27,041	47,617	74,658	27,041	47,617	74,658	37,364	75,932	113,296	37,364	75,932	113,296
% Change on pcp	24%	n/a	243%	20%	n/a	243%	38%	59%	52%	38%	59%	52%

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

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

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

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

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

## Cash outflows from operations

Both the quarter and the half year has seen a significant improvement in operational cashflows compared to the prior year. In addition to the aforementioned breakage accrual, there were a number of outflows in Q2 and a deferral of inflows out of Q2 and into Q3, which should be taken into account when interpreting the Q2, first half results and prior comparative period:

- The reported cash inflows for the *prior corresponding* period included our research and development credit of \$0.69M. Emerchants has received a research and development credit of \$1.0M for FY16 which was processed in Q2FY16 but we did not receive the cash until January 2016.
- There has been an increase in expenditure on marketing and travel in the first half relating to the expansion of our reloadable sales efforts in Europe. This has included participating at tradeshows (e.g. the ICE show as an exhibitor, the largest gambling operator event in the world) and numerous client visits within Europe. We would expect the marketing and travel expenditure to remain relatively high until we have signed up a number of European online wagering clients. In addition, we have incurred legal expenses associated with specific regulatory advice required for certain sales prospects that we are in discussions with. We remain positive as to our prospects in the UK and European gaming market and look forward to providing more information to shareholders at the appropriate time
- The Directors approved the payment of an inaugural short term incentive payment of \$0.38M due to the overachievement of the group's internal budget for FY15, the first such incentive payment since the group was listed in 2011. (\$0.2M was paid in Q2 with the balance being paid in Q3);
- In the 1HY15 results the group generated \$1.44M in establishment fee revenues, inclusive of card orders and set up fees, which were associated with a number of programs announced during that period, including bet365, Sportsbet, Ladbrokes, MoneyMe and CrownBet. In the 1HY16 results the group generated \$0.25M in establishment fee revenues, thus generating less cash inflow from establishment fees. The period in which Establishment fees are received is largely related to the timing of when contracts are signed and given the current sales pipeline, the group expects that shortfall to be made up in 2HY16

## Cash outflows from investing activities

The cash outflow reflected in Q2FY16 relates to the cash payment for the development of our EachWay® product that a number of online wagering clients have signed up to and which we expect to launch in early Q4. At this stage we have contracts signed with Ladbrokes, William Hill and bet365 and we continue our discussions with other gambling operators.

## Cash inflows from financing activities

The net inflows from financing activities relate to the exercise of a small amount of employee share options in Q2.

No further finance activities are expected in the near term as the Board considers the current funding and capital structure appropriate based on the Company's operating outlook. The Directors are satisfied that the Company has adequate funding, that its current balance sheet is sound, and that the Company complies with Listing Rule 12.2.

*Table 2: Quarterly cash flow summary*

<b>A\$ Thousands</b>	<b>Q2FY15</b>	<b>FY15</b>	<b>Q2FY16</b>	<b>FY16</b>
	Quarter	Year-to-Date	Quarter	Year-to-Date
<b>Operations</b>	<b>(919)</b>	<b>(1,398)</b>	<b>474</b>	<b>308</b>
<i>% Change on prior comparative period</i>	<i>(181%)</i>	<i>5%</i>	<i>152%</i>	<i>122%</i>
<b>Investing</b>	<b>(10,909)</b>	<b>(11,105)</b>	<b>(362)</b>	<b>(534)</b>
<i>% Change on prior comparative period</i>	<i>(1943%)</i>	<i>(1987%)</i>	<i>97%</i>	<i>95%</i>
<b>Financing</b>	<b>13,295</b>	<b>13,295</b>	<b>56</b>	<b>56</b>
<i>% Change on prior comparative period</i>	<i>100%</i>	<i>88%</i>	<i>(100%)</i>	<i>(100%)</i>
<b>Total inflows (outflow)</b>	<b>1,468</b>	<b>792</b>	<b>168</b>	<b>(170)</b>
Opening Cash	3,820	4,496	3,926	4,264
Movement for the period	1,468	792	168	(170)
<b>Closing Cash</b>	<b>5,288</b>	<b>5,288</b>	<b>4,094</b>	<b>4,094</b>

**-ENDS-**

For more information, please contact:

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# Appendix 4C

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

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

Name of entity

Emerchants Limited

ABN

93 104 757 904

Quarter ended ("current quarter")

31 December 2015

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers	3,843	6,722
1.2 Payments for:		
(a) staff costs	(1,768)	(3,719)
(b) advertising and marketing	(81)	(122)
(c) leased assets	-	-
(d) other working capital	(964)	(1,691)
(e) accounting and administrative services	(384)	(724)
(f) acquisition-related expenses	-	-
(g) exploration expenditure	-	-
(h) software and systems infrastructure	(201)	(402)
(i) risk and compliance	(131)	(250)
(j) rent and utilities	(138)	(261)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	281	521
1.5 Interest and other costs of finance paid	17	1
1.6 Income taxes paid	-	-
1.7 Other	-	-
<b>Net operating cash flows</b>	<b>474</b>	<b>76</b>

+ See chapter 19 for defined terms.

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

	Current quarter \$A'000	Year to date (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	474	76
<b>Cash flows related to investing activities</b>		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property/intangible assets	-	-
(d) physical non-current assets	(359)	(297)
(e) other non-current assets	(3)	(5)
(f) cash included on consolidation of subsidiary	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other	-	-
	-	-
<b>Net investing cash flows</b>	<b>(362)</b>	<b>(338)</b>
<b>1.14 Total operating and investing cash flows</b>	<b>112</b>	<b>(226)</b>
<b>Cash flows related to financing activities</b>		
1.15 Proceeds from issues of shares, options, etc.	56	56
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other – Share Issue costs	-	-
<b>Net financing cash flows</b>	<b>56</b>	<b>56</b>
<b>Net increase (decrease) in cash held</b>	<b>168</b>	<b>(170)</b>
1.21 Cash at beginning of quarter/year to date	3,926	4,264
1.22 Exchange rate adjustments to item 1.20	-	-
<b>1.23 Cash at end of quarter</b>	<b>4,094</b>	<b>4,094</b>

+ See chapter 19 for defined terms.

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

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

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	201
1.25	Aggregate amount of loans to the parties included in item 1.11	Nil

1.26 Explanation necessary for an understanding of the transactions

Payments to Executive Directors, Non-Executive Directors and Associates of the directors is broken down as follows:

\$000's

Directors and Executive Directors fees	179
Superannuation	24
Associates of the directors	-
<b>Total</b>	<b>203</b>

**Non-cash financing and investing activities**

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

Transactions which occurred during quarter ended 31 December 2015:
N/A

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

N/A
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+ See chapter 19 for defined terms.

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

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**Financing facilities available**

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

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

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$'000	Previous quarter \$'000
4.1 Cash on hand and at bank	3,297	2,523
4.2 Deposits at call	797	1,403
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.23)</b>	<b>4,094</b>	<b>3,926</b>

**Acquisitions and disposals of business entities**

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

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+ See chapter 19 for defined terms.



## Compliance statement

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



Sign here:

Director

Date: 29 January 2016

Print name: Tom Cregan

## Notes

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