

2 May 2016

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

EmERCHANTS Agrees to Acquire Store Financial Services, LLC

- EmERCHANTS Limited (**ASX: EML**) to acquire the assets of Store Financial Services, LLC (**SFS**), a leading provider of prepaid stored value programs in the United States of America and Canada
- Acquisition price of US\$35 million – represents an EV/EBITDA multiple of 9.3x pro forma FY17 US\$3.5 million EBITDA¹
- Consideration comprises 75% cash and 25% EmERCHANTS scrip
- SFS will be acquired with US\$3 million in net assets, including US\$2.5 million in cash
- Provides EmERCHANTS with a platform to launch its reloadable business into North America
- Successful completion of oversubscribed A\$58.5 million placement to institutional investors to fund the SFS acquisition
- Completion of the acquisition scheduled to occur on 3 June 2016

Overview

EmERCHANTS Limited (**EmERCHANTS**) advises that it has agreed to acquire 100% of the net assets of Store Financial Services, LLC and its subsidiary company Store Financial Services of Canada Limited (together **SFS**) from the shareholders of SFS. Total consideration for the acquisition is US\$35 million, comprising 75% cash and 25% EmERCHANTS shares.

SFS is a leading provider of prepaid stored value programs in the USA and Canada, with closed-loop shopping mall card programs representing 85% of funds loaded and evenly split between the USA and Canada. SFS has recently expanded into B2B gift card programs (Consumer and Employee incentives – the same programs issued in Australia and Europe), insurance payments and virtual /digital prepaid programs.

SFS has been profitable since 2009 and the acquisition will be immediately EBITDA accretive for EmERCHANTS. In the first 12 months post-acquisition, EmERCHANTS anticipates SFS will generate revenues of AU\$33.3 million and contribute AU\$4.7 million in EBITDA to the group's results.⁽²⁾

The acquisition will not be accretive at the net earnings per share level due to the non-cash amortisation expenses that are common in the acquisitions of FinTech companies where the assets are largely IP and customer contracts. EmERCHANTS experienced the same impact when we acquired

¹ Acquisition price excludes transaction costs associated with the acquisition and capital raising, retention share grants and bonus share grants.

² Assumes an average exchange rate of AUD:USD of \$0.75c

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SFUK and in this case we expect the entirety of the purchase price will be tax deductible over a period of 3-15 years (depending on the portion of the purchase price allocated to tangible assets, customer contracts and goodwill).

Rationale for the Acquisition

There is a compelling strategic rationale for Emerchants acquisition of SFS and the Company has been actively focused on a platform in North America for the past six months. The acquisition:

- Provides an established, profitable business in North America that has a track record of success, long-term customer relationships, low concentration risk amongst its customer base and has been EBITDA positive since 2009;
- Expands Emerchants service offering to the largest prepaid market in the world with loads in the USA projected to exceed US\$715 billion per annum across a range of reloadable and non-reloadable segments;²
- The Canadian market is also a significant market in its own right, with prepaid volumes expected to exceed CA\$19b by 2017;
- SFS has invested heavily in digital, virtual and mobile delivery for non-reloadable cards that Emerchants can leverage across its European and Australian operations;
- Acquisition is immediately EBITDA accretive and contributes profit and cash in FY17 with the expectation that earnings will scale as SFS increases its presence in B2B non-reloadable, insurance payments and other prepaid verticals, including potential access to gaming markets in the USA and Canada;
- Provides a platform for further niche prepaid acquisitions in the USA and Canada and the ability to extract synergy savings through SFS assuming transaction processing and other business functions;
- Broadens Emerchants revenue base to 13 countries and 5 currencies (AUD, USD, CAD, GBP, EU);
- Represents limited integration risks from a technical and operational perspective. SFS has a stand-alone processing system and a highly experienced management team with financial incentives to drive financial results; and
- The management team of SFS has significant domestic and international experience in various prepaid operations and countries. Further, the CEO of SFS, Mr. Eric Mettemeyer, worked with Tom Cregan in the USA for five years and there are established relationships between Tom Cregan and Board members of SFS, many of whom are receiving equity in EML as part of this transaction. These pre-existing relationships reduced the risks of the SFUK acquisition and we would expect the same outcome with this proposed acquisition.

Key Customers

Key customers include:

- Cadillac Fairview
- Ivanhoe Cambridge

² Mercator Group 12th Annual US Prepaid Cards. Market forecast 2015-2018. December 2015

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- Shell Canada
- US Bank
- Lenovo
- T-Mobile
- AT&T
- HYLA Mobile

In addition, SFS has an attractive sales pipeline across its existing and new sales segments and we expect to see material acceleration from these activities in the coming years.

Emerchants Managing Director, Tom Cregan said, “In the past 18 months Emerchants has transformed itself from a company operating in Australia, with revenues in FY12 of \$3m and with 90% of revenue concentration in one key customer, into a company operating in 11 countries with our largest customer representing no more than 10-15% of revenues. In that time we have demonstrated that we have been able to seamlessly integrate the UK/EU business and with the recent announcement of bet365 in the United Kingdom, that we can leverage our technology and solutions to other markets and offer shareholders exposure to markets with significant long term growth”.

“We believe this acquisition will generate similar long term benefits for our shareholders. It provides the Company with access to the market in the USA, the largest prepaid market in the world, and another significant prepaid market in Canada. In the process, we will grow the business and diversify the risk profile of the business, by operating in 13 countries, in 5 currencies and where the largest single customer will represent no more than 5% of revenues”.

“The Board of Emerchants has established clear approval requirement for acquisitions, notably that they provide an expansion in EBITDA as our most important measure, and that they provide us with access to additional geographic markets and/or access to new technologies that we can translate into other markets. The Board believes that this acquisition meets those criteria and thus is in approval of the acquisition”.

Acquisition Funding

The acquisition will be fully funded through:

- AU\$58.5 million placement of 40.35 million shares to eligible institutional and sophisticated investors at \$1.45 per share; and
- AU\$11.7 million equity placement to the vendors at \$1.45 per share.³

The placement price of \$1.45 per share represents a discount of 12.7% to the closing price of Emerchants shares on 27 April 2016 (\$1.66) and a discount of 10.9% to the five-day volume weighted average price (\$1.63).

Petra Capital and Wilson HTM acted as Lead Managers to the placement.

Dilution

The dilution represented by the purchase of the assets of Store Financial Services is approximately 14.2% for a business that will double revenues and represent long term scale growth. Inclusive of the

³ USD:AUD has been assumed at 75c.

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additional cash being raised to cover acquisition and transaction costs, and to have additional cash on the balance sheet, the acquisition is dilutive by approximately 20.0% (exclusive of up to 9.03 million option grants outlined below).

Use of Funds

- AU\$35.0m cash component of the SFS acquisition consideration
- AU\$3.5m in acquisition and transaction related costs
- AU\$20.0m additional cash on balance sheet for additional growth oriented investments

In addition to the cash balance in the Company today and the US\$2.5m of net cash acquired in the SFS acquisition, we would expect to finish the financial year with approximately \$28m in cash on our balance sheet, which we can use for a range of growth oriented investments.

Implementation of the Acquisition

To give effect to the acquisition, Emerchants and SFS have entered into a Business Sale Agreement (BSA). Under the BSA certain conditions must be satisfied prior to completion of the acquisition, including:

- Emerchants entering into employment agreements with key SFS personnel; and
- The written consent (where required) to the assignment of contracts which are material to the business of SFS.

The proposed employment agreements with key SFS management includes the provision for option grants to ensure that key SFS personnel are retained and motivated to remain part of the company and incentivised as the EBITDA of SFS expands. The grants are:

- 2.83 million Emerchants options as retention grants to several key SFS personnel. The options will have no strike price and will vest in three equal tranches over three years and are subject to service vesting conditions; and
- 6.2 million performance based options to SFS management that will vest at the end of FY19. Approximately 1 million options will be awarded for every US\$1 million in EBITDA that is achieved above a US\$5 million threshold. The strike price for the options will be the price at which the capital raising is undertaken and the options are subject to performance and service vesting conditions.

We would expect that in the event of full vesting of option grants, which would mean the Company is achieving US\$10m in EBITDA, incremental dilution would represent approximately 3.6%.

Completion

Completion of the acquisition and issue of the placement and equity shares are scheduled to occur on 3 June 2016, subject to EML's conditions precedent to the SFS acquisition being satisfied.

ABOUT EMERCHANTS

Emerchants is a payments solutions provider of prepaid financial card products and services in Australia. By using their proprietary payments software and processing platform, the Company provides its clients with innovative financial service payment solutions for reloadable and non-reloadable prepaid card programs, in Australia and in the United Kingdom and Europe through its

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wholly owned subsidiary, Store Financial Services UK Limited (trading as Emerchants Europe). Emerchants has offices in Brisbane, Australia and Birmingham, United Kingdom.

For more information please visit: www.emerchants.com.au

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