

31 March 2020



Money in Motion

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EML Payments Limited

ASX Market Announcements

20 Bridge Street
SYDNEY NSW 2000

EML to Acquire Prepaid Financial Services (Ireland) Limited -- Renegotiated Terms

- Acquisition of Prepaid Financial Services (Ireland) Limited (PFS), a multi award winning European provider of white label payments and banking-as-a-service technology will make EML one of the largest global prepaid fintech enablers
- Upfront enterprise valuation of GBP 131.5 million (AUD 252.3 million¹) is reduced by GBP 94.5m from GBP 226m
- Upfront cash payment of GBP 85 million (approx. AUD 159.0 million) from cash reserves on hand
- Equity of 23.2 million shares (number of shares issued in line with prior agreement at \$3.55 allowing for exchange rate movements, however current value of shares is approx. GBP 21.5 million (approx. AUD 43.2 million)².
- Additional equity consideration of GBP 5 million (approx. AUD 10.0 million) to be issued at a 10 day VWAP to 27 March 2020 of \$1.65 per share (approx. 6.1 million shares).
- Vendors will own approximately 8.2% of outstanding EML shares, held in voluntary escrow until April 2021
- Deferred acquisition payments totaling GBP 20.0 million (approx. AUD 40.1 million) falling due on 30 June 2024 (GBP 10.0 million) and 30 June 2025 (GBP 10.0 million) are interest bearing at 2.00% per annum until year 3 when the rate increases to 4.00% per annum until maturity. EML can repay this unsecured debt in full at any time, at its election.
- No secured debt from the transaction and no net debt post acquisition.
- Performance based earn-out of up to GBP 55 million (approx. AUD 110.3 million), payable in cash, contingent on PFS achieving agreed rebased annual EBITDA targets for the three financial years ending 30 June 2021 to 2023 reflecting growth of approx. 20% CAGR.
- Regulatory approvals from the Central Bank of Ireland and Financial Conduct Authority (United Kingdom) have been received and transaction is expected to complete on or around 31 March 2020
- Post completion, EML will have in excess of AUD 100 million in cash in addition to a breakage (contract assets) accrual of AUD34.8 million of which approximately 75% is expected convert to cash over the next 12 months
- The combined Group will have a total cash overhead expense rate averaging between AUD 5-6 million per month

¹ GBP / AUD conversion rate at 1.87 reflects the approximate forward exchange rate hedged on 11 November using forward exchange contracts for cash consideration. Other consideration is calculated using the exchange rate on 27 March 2020 of 2.0055

² Valuation of equity calculated using an EML share price of \$1.87 at 27 March 2020 and a GBP / AUD conversion rate of 2.0055 at 27 March 2020. These assumptions will be updated on the day of financial close, expected to be 31 March 2020.



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EML PAYMENTS LIMITED (ASX: EML) (“EML”) is providing the following update regarding the pending acquisition of Prepaid Financial Services (Ireland) Limited (“PFS”).

On 11 November 2019, EML announced it had entered into an agreement for the acquisition of Prepaid Financial Services (“PFS”). The acquisition value was an up-front payment of GBP226 million plus an earn-out over 3 years of GBP 55 million; funded through:

- a combination of cash (raised via a AUD 250m equity raise at \$3-55 per share);
- GBP 41 million in shares in EML at a AUD 3-55 per share purchase price; and,
- a syndicated debt facility of AUD 165 million, of which approximately AUD 130 million would have been drawn down.

The parties have worked collegially to re-structure the transaction in order to best position the go-forward combined business. EML would like to thank PFS’s selling shareholders for the spirit in which these negotiations have occurred and their commitment to the future strength and growth of the combined organization, which they will be a part of as shareholders of EML.

Strategic Rationale

The acquisition of PFS was strategically important for the EML Group and remains in the best interests of shareholders, including:

- **Leading Global Player:** Post-completion of the acquisition, the combined Group is expected to become one of the largest FinTech enablers in open banking and prepaid globally.
- **Revenue Diversification:** The combined Group will have less concentration in the Gift & Incentive segment which will make up less than 40% of the pro forma combined Group revenues (down from approx. 65% in 1HFY20).
- **Government, Local Authority & NGO:** When EML announced the transaction in November 2019, approximately 42% of PFS CY18 Gross Debit Volume was generated through provision of real time secure funds distribution and bulk payments and issuance to banked and unbanked individuals. EML expects this vertical to be a net beneficiary of increasing amounts of government stimulus and NGO welfare.
- **Broadened Solution Suite:** Adds digital banking and multi-currency offerings to EML’s solution suite and the ability to cross-sell PFS’s digital banking and multi-currency offerings into EML’s global market footprint.
- **Customer Diversification and Revenue Mix:** Further diversifies EML’s customer footprint and transitions the company into one in which the majority of revenues are generated by General Purpose Reloadable (“GPR”) products, with net revenue on GPR increasing from 25% to 54% of proforma FY19 net revenue.
- **Operating Leverage:** Brings scale to EML’s existing European operations, enabling greater operating leverage. In EML’s view, the enhanced scale of our business will enable us to better ride out uncertain times in markets and prosper as those markets move back into growth mode. We expect the number of market participants in the prepaid industry to contract due to the stresses of Covid-19 on their financial position.

The Board of EML was committed to seeking a conclusion to the transaction, but on improved terms reflecting the economic reality of Covid-19 and the need to have a strong balance sheet with significant cash on hand and nil net debts.

PFS Trading Update

PFS unaudited financial results for the calendar year ending 31 December 2019, were ahead of our expectations with full year GDV of \$3.01 billion, up 53% on the prior year. Revenue & EBITDA were in line with expectations & acquisition case including adjustments to align with AASB accounting standards and EML Group accounting policies.



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PFS Trading for the first two months of the calendar year, to 29 February 2020 has been strong and in line with the upper end of our initial acquisition case, including:

- Gross Debit Volume ('GDV') of GBP510.5 million or an annualized run rate of approximately GBP3.1 billion.
- GDV for the first two months of 2020 is up approximately 38% on the same period of 2019 and well ahead of the pro forma GDV estimates of AUD5.3 billion for FY20 given in November 2019.
- Launch of a significant contract with the UK Home Office is on track for prior to June 2020.

PFS trading was ahead of our expectations in January and February 2020 with material new programs in line for launch prior to June and expected to contribute to the FY2021 year. However, the current trading environment is uncertain with two major programs in Spain and France negatively impacted by strict government lock down measures as a result of Covid-19. Whilst it is difficult to quantify the immediate impact over the next three months, EML is confident in the long term prospects of this business including exposure to Government, Local Authority and NGO welfare.

Restructured Terms

The revised terms of the transaction will provide the combined business with a strong balance sheet, significant cash on hand and nil net debt. The agreed terms include:

- Upfront acquisition enterprise valuation of GBP131.5 million (reduced by GBP94.5 million from GBP226 million) or approximately AUD252.3 million comprising

	Original SPA 11 November 2019		Revised SPA 30 March 2020	
	GBP'm	AUD'm	GBP'm	AUD'm
Upfront Cash Payment ⁴	185.2	346.3	85.0	159.0
Equity Issuance Tranche 1 Issued at \$3-55 per share, revised SPA updated for exchange rate movements only and valued at closing share price on 27 March 2020	41.0	76.7	21.5	43.2
Equity Issuance Tranche 2 Issued at \$1.65 per share being 10 day VWAP to 27 March.	0.0	0.0	5.0	10.0
Deferred Acquisition Finance Tranche 1 Unsecured, interest bearing, falling due 30 June 2024	0.0	0.0	10.0	20.0
Deferred Acquisition Finance Tranche 2 Unsecured, interest bearing, falling due 30 June 2025	0.0	0.0	10.0	20.0
Upfront consideration	226.2	423.0	131.5	252.3

- Cash payment of GBP 85 million (approximately AUD 159.0 million) reduced from GBP 185.2 million under the earlier agreement. The Group will not draw down any senior secured debt under the revised agreement (previously estimated at AUD 130 million).
- Escrow of GBP 11.5 million has been replaced by the ability to make any claims against the deferred acquisition cash consideration of GBP 20.0 million or earnout of GBP 55 million.
- Cash payment will be funded entirely from EML's cash reserves on hand of approximately AUD 278 million following our equity raise issued at AUD 3.55 in November 2019.
- Equity issuance to vendors of approximately 23.2 million shares⁵ in EML shares (or approximately GBP 21.5 million (AUD 43.2 million)) is unchanged from the equity issuance in our original offer at an adjusted fx rate.

⁴ EML's hedged the forward exchange rate risk on 11 November 2019 with forward exchange rate contracts at approximately A\$1.87 : £1.

⁵ Calculation of shares to be issued based on share price of \$3-55 for GBP41.0 million of consideration at an expected AUD:GBP exchange rate of 2.0055 on the day of completion



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- Additional equity grant of GBP 5 million (AUD 10 million) in EML shares, to be issued at a 10-day VWAP to 27 March 2020 of \$1-65, approximately 6.1 million shares⁶
- Deferred Acquisition Finance Tranche 1 of GBP 10 million (approx. AUD 20.0 million) falling due on 30 June 2024, unsecured, not subject to covenants and interest bearing at 2.00% per annum until 30 June 2022 rising to 4.00% for the remainder of the term
- Deferred Acquisition Finance Tranche 2 of GBP 10 million (approx. AUD 20.0 million) falling due on 30 June 2025, unsecured, not subject to covenants and interest bearing at 2.00% per annum until 30 June 2022 rising to 4.00% for the remainder of the term.
- Earnout consideration of GBP 55 million contingent on PFS achieving agreed rebased annual EBITDA targets for the three financial years ending 30 June 2021 to 2023. To achieve the full earnout, a 3 year CAGR in excess of approx.. 33% on EBITDA is required.
- EML had entered into an under-written syndicated debt facility agreement and is in the process of re-negotiating that agreement, for an undrawn senior secured revolving credit facility. EML has no plans to draw down any future facility in the foreseeable future.

Timing of Completion

EML expects to close the transaction on or near 31 March 2020 having received approvals from both the Financial Conduct Authority in the United Kingdom and the Central Bank of Ireland, along with other customary pre-Completion condition precedents having already largely been met. Remaining Completion documentation will be exchanged at Completion.

Post-close

- The Company will operate in 26 countries, transact in 24 currencies and support over 3,500 prepaid programs
- EML will have in excess of AUD 100 million in cash, in addition to a breakage accrual (contract asset) of AUD 34.8 million of which approximately 75% is expected convert to cash over the next 12 months.
- The cash overhead expense base of the combined business is expected to average between AUD5-6 million per month, reduced from expectations in November 2019 when the deal was first announced. Given the cash balance and breakage accrual, EML reinforces that it has no requirement to, nor any plans to, undertake any equity raising activities.
- EML will have no net debt and no secured debt, with deferred acquisition payments not due until 2024 and 2025 respectively

Forward Guidance

On 19 March 2020, EML suspended forward earnings guidance for the year ending 30 June 2020 and intends to provide trading updates based on actual trading performance. We will adopt the same approach for PFS and will not be providing forward guidance at this time.

It is the view of the Board that the PFS business remains a high quality business and a complementary fit with our existing operations. The strategic logic for the transaction is unchanged:

- This acquisition fast tracks the transition of EML to a General Purpose Reloadable business, which has been a multi-year strategy.
- EML has a strong track record of M&A and is confident we can successfully integrate and add value to the PFS business. The combined Group is better positioned to capitalize on future potential M&A opportunities of cash generative assets.
- The combined Group will benefit from increased scale, a more diversified revenue and earnings base and a stronger platform for long term growth.



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Ends

About EML Payments Limited

With EML, you will be empowered with more control, transparency and flexibility over your payment processes. Whether you serve businesses or consumers, EML makes your payment processing more efficient and secure from start to finish, while helping you improve customer service and increase brand loyalty.

Our portfolio offers innovative financial technology that provide solutions for payouts, gifts, incentives and rewards, and supplier payments. We issue mobile, virtual and physical card solutions to some of the largest corporate brands around the world, processing billions of dollars in payments each year, and manage more than 1,500 programs across 23 countries in North America, Europe and Australia.

For more information on EML Payments Limited, visit: EMLpayments.com

This ASX announcement has been authorised for release by the Board.

For further information, please contact:

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