PayPoint

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# Acquisition of Handepay and Merchant Rentals

# Cautionary statement



The information contained in this presentation relates solely to the acquisition of Handepay and Merchant Rentals announced on 5 November 2020.

Only questions related to this acquisition will be permitted.

PayPoint is currently in a closed period and will be reporting their interim results on 26 November 2020.

# Acquisition highlights



- Important step to delivering enhanced growth and value in core U.K. market
- Handepay (leading card payments business) and Merchant Rentals (card terminal leasing business)
- Well-established 'top 4' card payments business with over 21,000 merchants processing £3bn annually
- £16.7m gross revenue and adjusted EBITDA of £5.4 million in FY ended 30 April 2020[1], with resilient performance through COVID reflecting higher levels of card usage
- Earnings enhancing in first full year of ownership (pre-synergies)
- Transaction of £70m (Enterprise Value) expected to complete in January 2021, subject to regulatory approvals

handepay merchant services

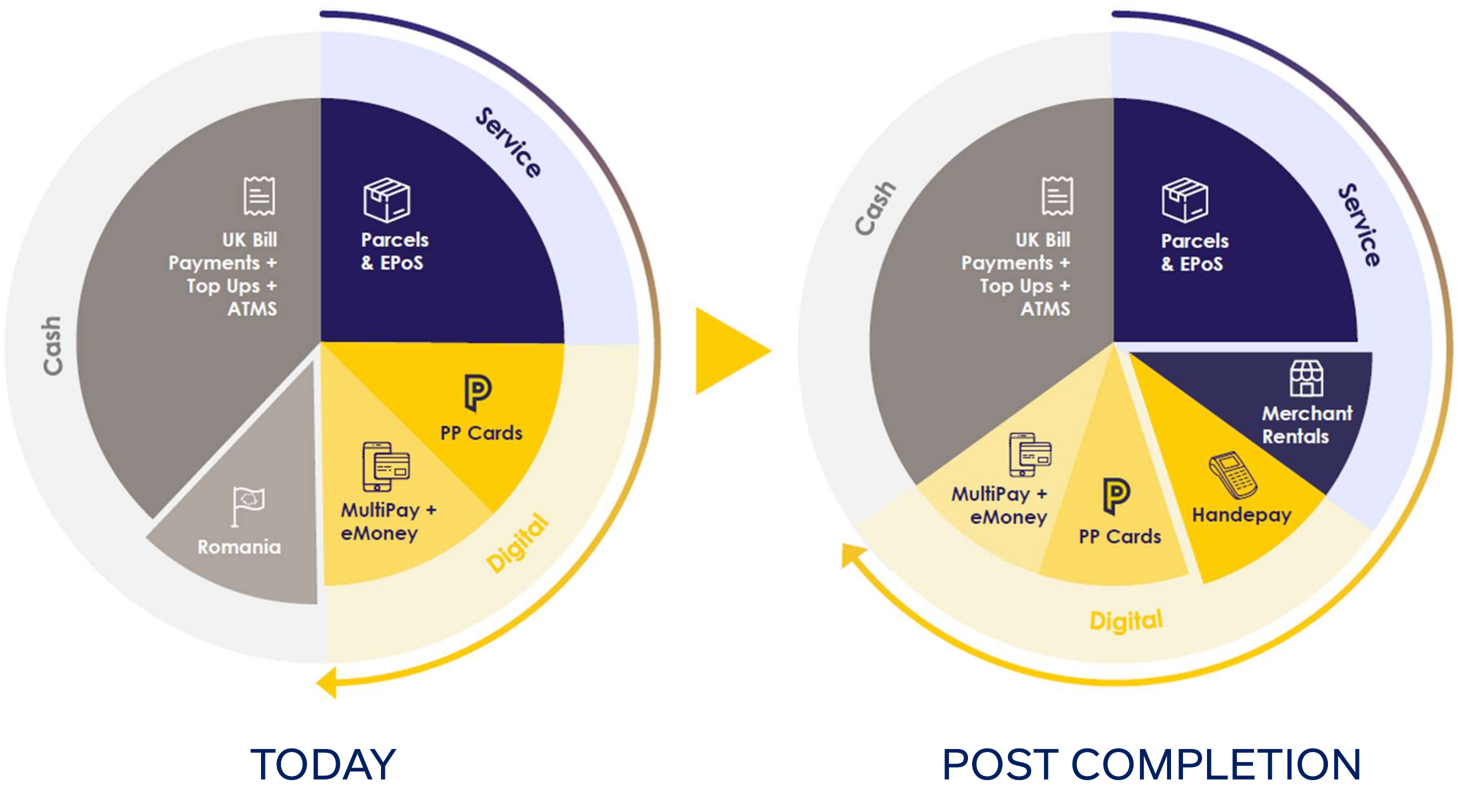
Merchant Rentals

1. Aggregated result of Handepay and Merchant Rentals, excludes discontinued operations and payments to shareholders to better reflect ongoing business performance

# Strategic context



- Leverage growth for core U.K. market
- Accelerates business shift to digital and services, away from cash
- Capitalise on growing sectors and significantly increase diversity of customer base – combined business will have under 5% share of U.K. card merchant market
- Capability to deliver better pricing, onboarding and in-life customer experience to the combined PayPoint cards business




NB. Chart is for illustrative purposes only

# Growth potential of U.K. Card Payments Market



2016 - tipping point for shift to cards from cash by U.K. consumers

PayPoint Q1 2020 data showed 75% increase in card payments through first UK national lockdown

However, still circa 2m SMEs in UK who do not offer card payments

81% of consumers claimed they would be more inclined to shop locally if cards were accepted

Sources: UK Finance, PayPoint Data, Internal Market Estimates, GIC Capital SME Survey 2018

FINANCIAL TIMES

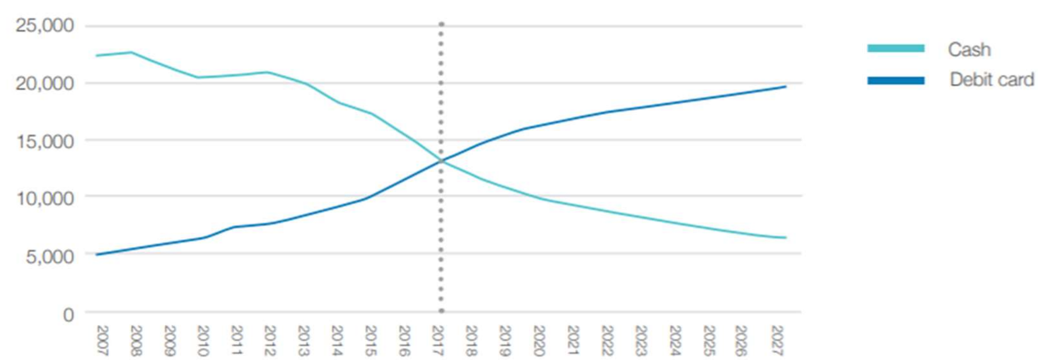
Coronavirus accelerates shift away from cash

Pandemic encourages more businesses to move to contactless payments

The Telegraph

Coronavirus may not kill cash, but it will change payments forever

**Payment volumes cash vs. debit cards (millions) 2007 to 2017 actuals, 2018 to 2027 forecast**




Source: UK Finance

# Leading card services processor with diverse customer base



- £3bn transactions annually
- 21,000 merchants
- > 30,000 terminals leased
- Serving groceries, hospitality, auto trade, clothing and household goods
- Strong customer proposition – rated 4.9/5 on Trustpilot


Trustpilot

**Handepay**

Reviews 7,334 • Excellent

★★★★★ 4.9

# Combined business operating model



Acquisition brings scale and opportunity for combination synergies

## 3 acquirer relationships

EVO

worldpay

LLOYDS BANK | CARDNET

## 134 strong national sales team

48 x PayPoint FTE

86 x Handepay FTE

## Strong SME relationships

30,000 merchant card payment relationships (Combined)

30,000 lease terminal relationships (Merchant Rentals)

9,000 bundled terminal relationships (PP1)

## Operational support

60 x FTE (Combined)

## Contact centre & Customer Support

86 x FTE (Combined)

# Resilient Handepay performance through Covid-19



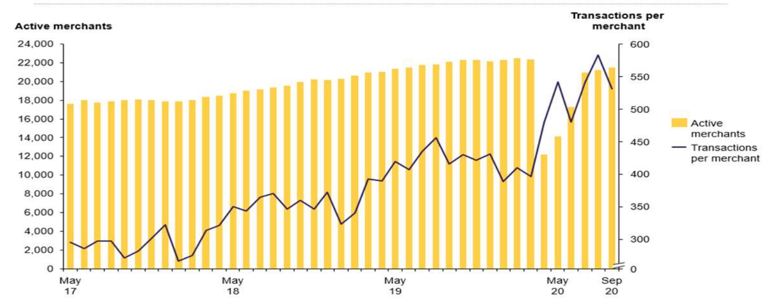
### Observations from customer analytics:

- The first lock down initially reduced active merchants by c10k with over 50% of the base continuing to actively trade throughout the period. This was driven by temporary closures of merchants and the furlough of sales staff (and therefore, the absence of new merchants).
- The recovery period for the temporarily closed merchants to return was approximately three months.
- There are c1k (4.5% of the book) less-active merchants. These are most likely permanent closures. Over the three-month period – this is not materially difference from the normal underlying churn of 1.7% per month.
- The merchant (customer) turnover is above pre-Covid levels, indicating a step change in Handepay's merchants card activity. This has driven by a combination of a switch of payments from cash to card and consumer habits changing to buying at local stores.
- The diverse book of sectors of Handepay show some sectors faring better than others with their largest sector, Groceries and supermarkets, performing above pre-Covid levels.

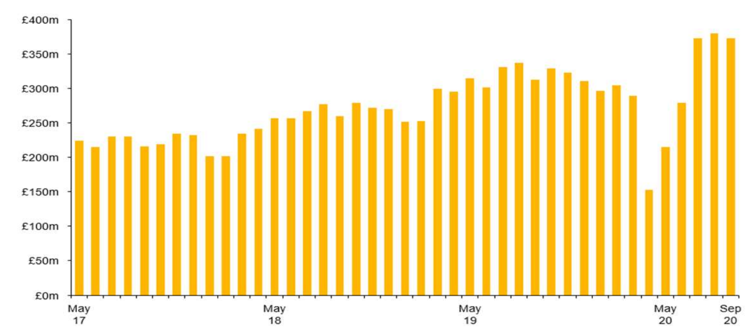
### Conclusions:

- The Handepay business has a resilient merchant base, with any temporary closures returning to activity in a relatively short period of time.
- There has been an increased step change in card payments usage and growth in card payments is likely to continue
- The impact of lockdowns is likely to be short term in nature.
- Lessons from the initial lock-down will benefit with different actions undertaken most notably the sales team of Handepay will not be furloughed during this lockdown.

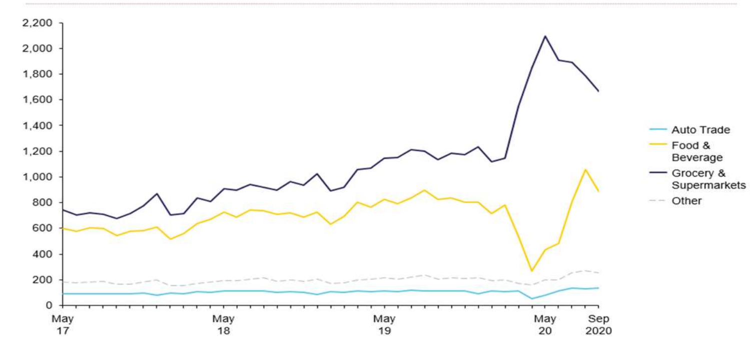
*Active merchants and transactions per merchant*




*Total customer turnover*




*Transactions per merchant by sector*



# Handepay - key financial and operational metrics



## FY ended 30 April 2020

| | |
|---|---|
| Gross revenue (£m) | 16.7 |
| Adjusted EBITDA (£m)[1] | 5.4 |

## Operational

- Circa 500 new merchants a month
- Over 80% of new merchants onboarded within 3 days
- Recognised terminal suppliers – Ingenico, Spire (Castle Technologies) and Verifone
- National sales team of 86 FTE
- Average lease term = 42 months
- Recognised acquirers – EVO and Worldpay

Transaction of £70m (Enterprise Value) expected to complete in January 2021, subject to regulatory approvals

Earnings enhancing in first full year of ownership

Opportunities for synergies

Extending current financing facility of £75 million to £95 million to fund acquisition

1. Aggregated result of Handepay and Merchant Rentals, excludes discontinued operations and payments to shareholders to better reflect ongoing business performance

# Summary



- Important step to delivering enhanced growth and value in core U.K. market
- Well-established ‘top 4’ card payments business with over 21,000 merchants processing £3bn annually
- Significant growth and efficiency potential from enlarged card payment business
- Earnings enhancing in first full year of ownership (pre-synergies)
- Transaction of £70m (Enterprise Value) expected to complete in Q4 of current financial year, subject to regulatory approvals