FULL YEAR 2019 PAYPOINT PLC EARNINGS PRESENTATION

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PRESENTATION

Patrick Headon, PayPoint plc - CEO & Director 1

So good morning. Delighted to be here. First, let me introduce myself to those of you that don't know me. I'm Patrick Headon, I've been CEO of PayPoint from the 1st of April. So early days, but what we're going to do this morning is first of all, Rachel will take you through the results fiscal year '18,'19. I'll share with you some of my initial perspectives on the business, and we'll finish by taking your questions.

So if that works for everybody, why don't I hand over to Rachel to talk through fiscal year '18, '19.

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 2

Good morning, everybody, and it's great to see you all here today. And before I dive into the numbers, I just wanted to just give a little bit of context to them. And many of you'll remember this slide from this time last year. And what we're trying to convey in this slide was that we had restructured and reset the business for growth and what we wanted to do is set out 4 key growth drivers as we saw them this time last year.

If we move forward onto the next slide, you can see that this actually does highlight the good progress we made against those 4 priorities that we set out. PayPoint One is now in almost 13,000 sites, which was ahead of the original target we set out this time last year of 12,400. We have secured 4 new parcel partners, including eBay, which is actually one ahead of the target we gave you this time last year; and bill payments and top-ups continue to deliver a resilient performance with Romania, MultiPay and eMoney all showing strong growth.

And in Romania, the integration of the Payzone business continued very well, with 1,500 of the top transacting Payzone retailers choosing to go into the PayPoint platform. Obviously, we also continue to focus on improvement of our service delivery to our retailers and continuing to push innovation through our pipeline, but I'll take you through those later when we hit the operational review.

So now turning to the numbers. And you all have the detail of these in the RNS this morning, so I'll just take you through the key points today. So underlying net revenue growth and a strong cost performance resulted in profit before tax before exceptional items of GBP 53.8 million. This was an increase of GBP 0.9 million or 1.6% from the prior year. The exceptional item relates to the relief of a provision for the PayByPhone disposal in December 2016. The provision was held for potential costs, which are now unlikely to materialize.

Reported profit before tax, therefore, increased by 3.3% to GBP 54.7 million, and also increased earnings per share by 3.3% to 64.8p per share. Also shown here is the continuation of the strong returns to shareholders. Total dividends paid of GBP 56.6 million in the year was an increase of 1.2% from the prior year. And as we announced a year ago, from the 1st of April 2019, we're moving to paying our dividends quarterly. As a consequence, reported dividends have reduced. However, as we connected the dividends actually paid to the shareholders through this coming financial year will be the same as it would have been under the old profile.

On this slide, Slide 7, I'm showing here the underlying profit before tax growth of 11.3%. What we're trying to do here is exclude the impact from the revenue headwinds of GBP 5.2 million that we talk to you about this time last year, which is the GBP 4.2 million from the closure of the DWP simple payment scheme and GBP 1 million from the Yodel renegotiation. We also got GBP 0.9 million of incremental VAT benefit in this year, so I've sort of excluded that for the purposes of underlying performance.

So net revenue grew in U.K. retail services by GBP 1.2 million, and Romania by GBP 2 million. This was partially offset by the expected decline in U.K. bill payments and top-ups, but there was also a GBP 2.9 million benefit from the costs in the year.

Now to give you a bit more detail about what's going on within the revenue performance, and you can see on this table, the impact from the headwinds disclosed separately at the bottom of the table, and I'm going to focus here very much on the underlying performance. U.K. bill payments and top-ups together delivered a resilient performance, net revenue only decreased by 1.3% despite a 6.4% reduction in transactions. This was due to improved mix of smaller, but higher-yielding clients, strong growth in MultiPay, while our net revenue increased by 48%, and eMoney net revenue growth of 22%. Romania continues to deliver strongly, transactions grew by 16.4%, resulting in net revenue growth of 16.8% to reach GBP 13.9 million. This was in part due to the benefits of the integration of Payzone into PayPoint.

U.K. retail services showed underlying net revenue growth of GBP 1.2 million or 3.2% to reach now GBP 37.1 million. And this was primarily driven by the GBP 2.6 million increase in service-fee revenue, driven by adding over 4,000 PayPoint One sites in the year. Card payment rebate revenue increased by GBP 0.5 million or 5.5%, and this was driven by transactions increasing by 20%, mainly in contactless payments where net revenue per transaction is much lower than in Chip & PIN. ATM net revenue reduced by GBP 0.5 million, reflecting the known LINK interchange rate reductions. However, our transactions actually grew by 2.9%, as we really focused on managing the quality of the state.

Parcel and other net revenue reduced by GBP 1.3 million, and this reflected the lower parcel volumes of the incumbent partner. Volumes from new parcel partners, which drove the network in the second half of the year haven't yet fully ramped up in the results you can see. It's also worth noting that this segment also can produce a lot of revenues, such as sim sales, which declined in line with the reduction in mobile top-ups, and also Western Union, where we substantially reduced our activity within the year.

Overall, underlying net revenue increased by 2%. We now just turn to the underlying total cost where we've had really solid performance. And I'll just talk you through this slide point by point because there's a quite a lot going on in it. So you can see the GBP 66.6 million total cost for the '17,'18 year. And there was a one-off GBP 1.5 million VAT benefit, as you know, in last year's results. And that gave effectively GBP 68.1 million starting point as we went into financial year 2018, '19, from which we've implemented sustainable cost efficiencies of GBP 1.9 million, and these efficiencies include bringing on legacy terminal repairs in-house, which led to a improved performance and process as well as cost benefits. We reorganized our development team to implement an agile process, and we improved our VAT recovery through better cost analysis.

We also had GBP 1.5 million one-off cost savings in the U.K. Included here is GBP 0.6 million from cost deferred under IFRS 15. For those of you who want to know more about the impact of this accounting standard, there's an appendix in the back for you. As a result of the above one-off savings, we were able to invest GBP 900,000 back in the U.K. business, and these investments included automating some of our IT processes relating to daily settlement, consultancy for the implementation of agile within the IT team and upgrading our financial systems.

Romania's full year cost increased by plus GBP 0.6 million, as Payzone's operations came in for the full year. This is a brilliant performance because for those of you who were here 6 months ago, you recall that the first half, those costs had come up by GBP 1.1 million, so you can see that actually in the second half we've really been able to deliver cost efficiencies from managing those 2 businesses as now as well.

G&A reduced by GBP 0.7 million, certain assets reduced -- reached the end of their useful life. And net financing costs reduced as we effectively invested cash balances to offset additional financing costs from these one-offs, yes.

Underlying costs were GBP 65.2 million, a reduction of 4.2% from prior year.

And finally, we showed one-off benefit in the year arising from improved VAT recovery as a result of better cost analysis and this relates to prior year.

So we turn now to cash flows. You can see that profit before tax of GBP 54.7 million has been adjusted for exceptional items, D&A and noncash items to arrive at cash generation of GBP 62.8 million. As we've highlighted in last year's results, 2017, '18 cash generation of GBP 67.9 million included a GBP 3.4 million timing benefit, which stemmed from the VAT tribunal outcome. So PayPoint effectively received VAT from clients in advance of payment over to HMRC, and this is now being paid in this financial year.

And you can now see in the call-out blocks that the underlying cash generation, therefore, remained positive year-on-year. The cash generator was used to pay dividends of GBP 56.6 million, taxes of GBP 10 million and CapEx of GBP 11 million were refunded from the range of that. And PayPoint's corporate cash was GBP 3.5 million at 31st of March 2019. At year-end, the facility of GBP 75 million was unutilized, but we did use it during the year when volumes peaked to GBP 12 million.

Now just to help you all with the outlook for cash flows, I'd just like to point out a couple of things. HMRC's new payment on account machine will lead to an increase of circa GBP 5 million for tax payments for 2019, '20. And as communicated before, CapEx is expected to range between GBP 12 million to GBP 14 million in the year.

Here on Slide 12, just to emphasize that our balance sheet remains strong with net assets of GBP 50.2 million, and this is a reduction of GBP 11.1 million from 2017 as a consequence of the additional dividend program.

The only other notable item is the other intangible assets increased by GBP 2.3 million, reflecting the continued developments of first with CRM, EPoS solutions and MultiPay.

We move to Slide 13, it's worth noting the strong cash returns to shareholders through our 2 dividend payment streams. The first is an ordinary dividend where we target cover of 1.2x to 1.5x, and the second is an additional dividend where we committed to return a GBP 125 million to shareholders over 5 years. This commenced in December 2016, and today, GBP 58 million of the GBP 125 million has already being paid.

So that ends numbers, and I'll now take you through the operational review, just give you a bit of color on what's been happening in the business.

Firstly, let's talk about PayPoint One, where we had a strong performance, ending the year with 12,900 sites, which is significantly ahead of the original 12,400 target. For the standing start 2.5 years ago, we've now migrated 3/4 of our state from the old T2 to the new technology. In line with our stated strategy of priorities towards the sun-setting goal technology, we focused our sales team efforts on upgrading existing retailers in the year, and consequently the average weekly service fee was flat at GBP 15.

On Pro, our flagship EPoS product, we've now completed the links to Booker and Nisa and we're now in trial in selected outlets. We delivered improvements to make PayPoint easier for our retailers to work with by reducing call waiting times through a new IVR by 80%. We significantly reduced the time to resolve retailers' claims from over a month to within a week. And we've also put Card net settlement into pilot, and this is a unique service that only PayPoint can offer, which helps improve retailers' working capital and potentially reduce banking charges.

Looking into '19, '20, our priorities will be to grow the PayPoint One network to 5,800, and return the weekly service fee to growth, both through an RPI increase of 2.5%, which will be implemented from the 1st of June and through product mix. And finally, we've already altered the sales teams' incentives to focus their efforts on getting the card state back to growth.

Turning now to parcels. We made really good progress securing 4 new partners, including eBay, which is the U.K.'s largest online marketplace and that was one ahead of target as I've already said. And in terms of innovation and service delivery, we launched the mobile app, allowing parcels to be scanned from anywhere in the store. There's been over 1,800 downloads so far, and this enables a better all-round service experience for our retailers, our consumers and our partners.

We also improved our key operational KPIs on parcels in the year. The 2019, '20 year is all about leveraging our new partnerships to grow volume and revenue. To do so, we need to ensure that we're operationally robust and that our parcel proposition is increasingly at the forefront of consumer's minds.

Turning now to bill payments. And we're really, really pleased with the performance of our bill payments and digital payments business. It's highly cash generative for us, and it's actually proved to be very resilient. Our success has been driven by continuing our strategy of adding higher margins for the clients, with 21 new clients added in the year. Our partnership with Monzo has been a notable success, and in the chart alongside you can see the good growth coming from eMoney in the last 2 years, and we expect this to continue.

We also launched the Direct Debit feature on MultiPay, which are key parts of our growth plans going forward.

Finally, turning to Romania where we delivered another strong year of growth with net revenue up 16.8%. Payzone integration is into progress well. The 1,500 is the highest transacting retailers choosing to migrate to PayPoint's platform. Card payments is now in over 1,300 sites as well. Our ambition going forward is to roll out our new terminal that we just talked to you about previously, extend the card payments for further 500 sites and launch a retailer app. As you expect, we will leverage our unique network to deliver revenue and profit growth.

And finally, to include my -- to conclude my section of the presentation, let's just review the outlook for 31st of March 2020 financial year. And I think it's fair to say the critical driver of performance in the year will be revenue growth, for which we're well set up to deliver it. Revenue headwinds are expected to be limited to GBP 0.7 million, which relates to the final year of the Yodel renegotiation. But more importantly, PayPoint's revenue is expected to benefit from momentum across PayPoint One, parcels, MultiPay and Romania. We will, of course, continue to be vigilant on control of cost, which are anticipated to rise in the year. The VAT benefit of GBP 2.4 million will not reoccur and there'll be a GBP 2 million investment in customer business efficiency, which is required to invest behind our growth drivers. It's also worth noting the phasing of profit before tax will be more weighted towards the second half of the year than last year when H1 included the benefit of the Payzone integration and most of the VAT one-off benefit.

So if you put all of this together, despite the uncertain broader economic environment, the board is confident that there'll be continuation in the progress in profit before tax and exceptional items for the financial year ending 31st of March, 2020. And now I'll hand over to Patrick for the rest of the presentation.

Patrick Headon, PayPoint plc - CEO & Director 3

Thanks very much, Rachel. And all credits to the team for that set of results. Let me just talk a little bit about my first few months. What have I done? I've got to know the PayPoint team. I've met a number of our clients, including the BBC; convenience retailers across England; partners, such as Yodel and eBay; and both analysts and shareholders. I've also been fortunate to have an extended handout with Dominic Taylor who leaves behind him a strong legacy in the business. I'm very grateful to Dominic for his support and insight.

So let me talk about my first impressions. First of all, PayPoint has a strong business model. We help millions of consumers make vital payments and collect parcels conveniently. We help tens of thousands of convenience retailers offer more services to their local community and improve the performance of their business. And we help hundreds of businesses simplify bill payments or parcel collection for their customers. And we do this across our market-leading network of retailers and is supported by a low-cost scalable platform.

Second point, as Rachel has just outlined, we've made good progress laying the foundations for future growth by focusing on the key growth drivers. PayPoint One is now at 13,000 sites and that's in a little under 3 years. And over the next few years, our priority will shift from growing penetration to helping customers to choose higher value-added versions of PayPoints.

As you heard, we now have 4 new parcel partnerships in place with eBay, and 3 of the largest carriers in the U.K. MultiPay is a great product. It offers consumers the full range of digital and cash payment options, and we're going to continue to grow its customer base. And the Romanian business has been strengthen by the Payzone acquisition and going forward, innovation will be key to continue the growth.

Third point, we operate in a dynamic environment, and that presents both significant opportunities and exciting challenges. Convenience retail is getting more and more competitive and PayPoint One has the functionality to help retailers compete better and offer more services to their customers. Click and collect is forecast to grow strongly, with our network of stores we can offer a convenient solution to consumers, and we can help couriers deliver the final mile more efficiently. Going forward, as Rachel said, we've got to focus on maintaining the high-service levels as we scale up the business. Now of course, like any business, there are challenges. For example, bill payments revenue has been robust in the face of declining use of cash, but we need to continue to innovate as we have done and to attract new customers into this area to protect our profitability. And competition will continue to grow. So we need to be absolutely sure that we offer the best products and the best customer service.

And finally, and most importantly, we're fortunate to have committed employees who really are very innovative. It's been the best part of the job so far, getting to know the teams in Welwyn and Bucharest, and we've got a great mix of experience, passion and creativity. And it's clear as well to me though, as we look to deliver on our ambitions, we'll need to build even stronger capabilities in certain areas. Agile product development, for example, will be absolutely essential. So those are little bit my first impressions, let's turn to the future. I've just identified 4 priorities. First one, as you can imagine will be the focus on retail services growth. We are going to build on the foundations that we laid down last year. We will increase PayPoint One to 15,800 sites and we'll capitalize on the opportunities in parcels and MultiPay, in particular.

Second, we need to improve the service through our retailers in our network. Our current satisfaction is not where it should be. Based on my experience in multiple industries, I'm convinced that a strong customer satisfaction is an absolute requirement for sustainable growth and to deliver the kind of customer satisfaction I'm talking about, the whole organization needs to be engaged. So we got more to do in that area. And third, we have an important release of our Salesforce CRM due to go live in the second half. Now robust CRM systems are important for business of our size, that help drive customer satisfaction, drive efficiency as well as allowing automation of paper-based workflow. So the next Salesforce release will automate the contract sign-up process. And it's fair to say, CRM has not proceeded as quickly we might have wanted, and so for me, this project is one of the number of areas where we must look to sharpen our focus on delivery of critical clients or customer output -- outcomes to support the growth of the business.

And finally, on strategy, clearly, the top priority is to deliver further progress on those growth drivers you just heard about. But I'll be spending the next few months getting more familiar with the existing strategy and identifying with the team additional ways to increase the long-term value of our retail network and of the business overall.

So 2 months in, very confident about the future, but recognize there's work to be done.

And finally, let me summarize the key messages. The business delivered a robust set of results in fiscal year 2019 -- 2018, '19. The priorities for this year are clear. The board is confident that there will be progression in profit before tax in fiscal year '20, and we remain committed to delivering strong cash returns to shareholders.

So that's the end of the presentation. So I'm very happy, Rachel and I will take any questions you may have.

QUESTIONS AND ANSWERS

Patrick Headon, PayPoint plc - CEO & Director 1

So what we'll do with the questions, I'll feed them and probably pass most of them to Rachel. Fair enough? Yes. So I won't take IFRS as well just to be absolutely clear.

Kai Folker Korschelt, Canaccord Genuity Limited, Research Division - Analyst 2

So it's Kai from Canaccord. The first question was on the parcel TAM, total addressable market, of 700 million units, which sounds like it's quite a high number given, I think, your current run rate is sort of around 20 or maybe even lower. So I'm just wondering kind of if you could lay out how much of that 700 million is actually really addressable for you. And how long might it take you to get to the GBP 60 million? And is the GBP 60 million not potentially conservative in that context?

The second question was around strategy. Patrick, I know it's early days, but would you consider M&A potential maybe geographic expansion as part of the future strategy? And then the third one was on bill in general. The U.K. volumes or transaction volumes seem to have sort of been down around 5%. With the rise in energy prices, is it possible for that part of the business to grow again?

Patrick Headon, PayPoint plc - CEO & Director 3

Great. 3 questions. Rachel, do you want -- so you maybe want to take bill payments and parcels, and I'll talk about strategy.

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 4

Yes. So shall we start with the -- going backwards as it were. I think on bill payments, you're absolutely spot on that transactions are down by 5%. This is actually probably a bit of an improvement than where we were a couple of years ago. And I think we really do feel this segment is more resilient for us. I mean just to give you a sense of our prepay energy business, half of the volume now comes from challenger and smaller energy companies, rather than the Big Six. So I think that just really shows the huge shift that's been there for the last few years. And that -- so that's good. And I think the fact that energy prices have been going up over the last couple of years is generally positive for PayPoint because we tend to see the consumers broadly sort of top up at about GBP 15 a time. So clearly any sort of even marginal increase in household energy bill, and the number of top-ups do sort of increase, which has been kind of good for us, yes?

So then turning to your question about the addressable market, and I guess you're referring to the chart that's on Page 16.

Kai Folker Korschelt, Canaccord Genuity Limited, Research Division - Analyst 5

Yes.

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 6

So clearly, where we're very much sort of playing at the moment is the blue bar on there, which is the third-party click-and-collect, and we also tend to do incredibly well in returns, yes? We're not in the send proposition, which is really where the post office particularly plays, although sort of Hermes has started to enter that market. And so that would be an area where we'd have to develop new capabilities to get into that pink segment. So I think genuinely today, our sort of organizational capabilities as we sit today are effectively the combination of the dark blue and the gray segment, yes? Does that help? I mean I think we're very well set up now because we probably been talking to you for -- if we were sitting here this time last year, we still had one parcel partner, and we're talking to you about signing up new ones, and it's great to be in a position where we've now got 5 partners, all of whom are credible large players, and our absolute focus is now on converting those partnerships into volume and into revenue.

Patrick Headon, PayPoint plc - CEO & Director 7

And Kai, coming back to your question on strategy. Look, it's early days as you can imagine. And I think what's important at the moment, our priorities are clear. We've got to get on and execute them. I will be taking time, as you could imagine, coming in to any business, getting a sense of other strategic opportunities. And we'll always look at M&A opportunities we think that adds value to the business, but we'll be very rigorous in how we allocate capital. Rachel will ensure that, and I'll do that as well. But we've also got a strong Romanian business, that's absolutely clear. I don't think that was ever an articulated international expansion category -- strategy, that was more an opportunity that came up. And I think we're very pleased with how the Romanian business has performed.

Michael Donnelly, Investec Bank plc, Research Division - Research Analyst 8

Michael Donnelly from Investec. Just 2 from me. One, I think, for you, Rachel, the receivable inflow just under GBP 3 million, I think, is one of the biggest ones we've seen in about 6 years in the business. Could you just talk us through what's behind that? And the second one for either of you, I think, what is the -- historically the operating leverage in this business has been quite remarkable and resilient over a number of years. Can you just talk qualitatively how you see that changing or being sustained maybe in a 3- or 5-year view as parcels and PayPoint One takes off? Do you see it holding pretty much where it has been? Or perhaps do you see it accelerating?

Patrick Headon, PayPoint plc - CEO & Director 9

Yes. Do you want to take that?

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 10

Yes, so just to clarify your question on the receivables point, are we talking about note 8 of the accounts?

Michael Donnelly, Investec Bank plc, Research Division - Research Analyst 11

Yes, yes.

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 12

Yes. So basically -- just so we're all sort of on the same page here. So I think one of the things that really sort of affects kind of the cash flows, working capital in the business is actually when a period end falls because all of this kind of relates to client kind of cash that we're effectively collecting on their behalf. So last year, if you remember, the Easter Sunday was the 1st of April, so we effectively closed the books on the 31st of March, which was a Saturday. So we were therefore holding a couple of 2 or 3 extra days of client cash, which has reversed out this year because if you remember, Easter was in April, which was the new financial year. So that's kind of what you're effectively seeing there, yes.

Yes. And then on your point about operating leverage. I mean I think one of the points I feel is brilliant about the PayPoint model is effectively we've got kind of one call center, one IT ops function, one settlement function and yes, one piece of effectively technology in kind of now PayPoint One that allows you to operate, whether it's the bill payments business, it's EPoS, et al, and actually, we'll continue to leverage that if the LINK over-the-counter scheme continues at pace. And so effectively for us, when we add on something like a new parcel partner, we do have to put more head count in, in the ops function. But it's not significant because clearly, what we've been trying to do is manage the compliance of the retailers. So actually, the drop-through in terms of new revenue as we add it into PayPoint is quite significant.

So I would expect our operating margins to remain relatively kind of constant, yes? I don't think we've got massive amount of fat in the business to take out substantially more costs. I think what we will end up doing is switching probably bodies for doing things smarter with technology, yes, in terms of our processing functions. So I think we've got very high operating margins, in the high 40s, and I think broadly also might kind of fluctuate up or down by a percentage point within -- between financial years of various factors. I think that's kind of the game, what you could probably expect going out, yes? Yes.

Patrick Headon, PayPoint plc - CEO & Director 13

And that sort of resonates what I was saying about the scalable platform. That really is a real strength of what we've got.

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 14

James Goodman.

James Arthur Goodman, Barclays Bank PLC, Research Division - Research Analyst 15

It's James Goodman from Barclays. So a couple from me as well then. On smart meters firstly, which is a key theme, I guess, in the industry and an opportunity and a threat for PayPoint. Patrick, I'm curious coming into the business what's your assessment of the impact that the smart meter rollout will have on PayPoint over the coming years and if we offset the MultiPay opportunity versus perhaps some of your customers not needing any more to pay in cash.

And then the second one was just on the capital strategy for the business. You've committed to the dividend payout as previously stated. You dipped into net debt this year. Where are you happy to go on the leverage? And does that not in any way restrict you from some of these potentially more strategic initiatives that, Patrick, you may be talking to us about over the coming months or half years?

Patrick Headon, PayPoint plc - CEO & Director 16

All right. Let me take the first one, and Rachel, second point on leverage. Okay, it's early days, for me as I've said before, getting to grips with smart meters. What I'm clear, probably like all of you, smart meters has not moved as quickly as anybody in the government certainly once had expected. And what is clear, there's -- do you have a smart meter? But then how do you pay for your electricity? And those are 2 slightly different dynamics that can go -- have different implications for our business. What I'm clear on is, if you look at the robust performance on bill payments, what the team has done very well is look at opportunities to develop new products, new services with new customers, and we've managed to maintain pretty good performance in bill payments. So we were going through the impact of the smart meters. Roughly in our prepaid energy business, 30% of our transactions are to customers who have some degree of smart-enabled meters, whether it's SMETS1, SMETS2. So it's already there, and we're already working with our customers to make sure we deliver great service and maintain our bill payments business. So that's smart meters. Rachel, do you want to talk about leverage?

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 17

Yes. I mean I think the first thing to actually say is one of the great things about the PayPoint model is because we have the high sort of operating margins actually, we do generate significant amounts of cash in the year. So if I sort of think about the cash generation we produced in any 1 year, it's more than enough to cover the dividend that we're paying and effectively the tax bill. Now clearly, you can all see this from your models that over the next sort of 2 to 3 years, we'll end the year increasingly net debt, but it will be sort of in terms of net debt-to-EBITDA, de minimis in the scheme of things, yes? So if we want to invest more or we see opportunities to accelerate growth, and they have to add value to shareholders, we've actually got significant amounts of potential to actually leverage the business if that's what we think is the best thing to do in terms of driving total shareholder return and profitable growth. So I think we're in a fantastic position quite frankly, yes.

Patrick Headon, PayPoint plc - CEO & Director 18

Yes. And the capacity is there, but we'll be rigorous in how we allocate capital. Those are the 2 principles.

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 19

We'll go to Joe.

Joe Brent, Liberum Capital Limited, Research Division - Head of Research and Equity Analyst 20

Joe Brent. Three questions, if I may. Firstly, on Collect+, you've had a successful period of adding new partners. Would you give us some sense of your targets for this year in terms of new partner wins? Secondly, on fee growth of PayPoint One, you've talked about 2.5% inflationary increase and the mix effect. Is it fair to assume like a 5% increase in the year? And thirdly, on costs, clearly, there's a few headwinds on cost this year. Could you give us some indication of whether costs will go up? And also talk a little bit about CRM and maybe possible cost overruns there.

Patrick Headon, PayPoint plc - CEO & Director 21

Let me take the first one on Collect+, and then Rachel, if you're okay with the other 2. Look, I'm sitting here, we're in a great position. That multi-carrier model that was announced, we made some pretty good progress. We signed up more people than the commitment that was made last year. So we've got eBay plus we've got 3 other carriers, big carriers. So really the priority for the moment is letting those customers -- those carriers in to -- the third one will be ramping up in a couple of months, and it's making sure we ramp up those volumes and deliver the customer service we want because clearly what's important in this businesses is being ready for the Christmas peak. So that's absolutely what we're focused on delivering this year. And Rachel, do you want to take the other 2?

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 22

Yes, so let's start with your question about I think it was PayPoint One and service fee. So you're absolutely right, we have implemented a price increase from the 1st of June of 2.5%. And then we've got opportunities to add to the increase in work -- weekly service fee through product mix. Whether that ends up being at the end of the year, the number's up 5%, throwing out a number, I'm kind of relatively relaxed on that point because actually I think what we're trying to take is a broader view and actually say to our sales force what we want to be doing is maximizing value both to retailers in terms of the products we offer them and value -- therefore, the value we get from them, yes? So that's kind of how we think -- are thinking about things, which is probably slightly more holistically than we would have done in previous years.

To your point about costs, I think one of the things I've tried to do on the cost chart is kind of lay out all the moving parts relatively kind of clearly for everybody because it just makes it, I think, that easier when you come to model it going forward. And you can see very clearly from that, that absolutely we have had the benefit of the GBP 2.4 million backpay in terms of VAT from the back of sort of cost analysis that we've done in the year, and that's been GBP 2.4 million. We'd expect that to kind of effectively reverse out, and then we stick north of circa GBP 2 million increase in costs, which is in part due to the delivery of CRM, which continues. And I'll talk a little bit more about the benefits we've had from that and the benefits we expect to get from that and then other initiatives around just broadly business resilience and robustness because we are starting to kind of become a business actually particularly in the area of actually PayPoint One of significant scale at 13,000 retailers. We want to make sure that we're delivering some highly resilient and works really well for them. So if we need to put a little bit more investment behind that, absolutely we will because that's the right...

Joe Brent, Liberum Capital Limited, Research Division - Head of Research and Equity Analyst 23

(inaudible) might be sensible?

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 24

Yes. I mean broadly, yes. Yes. And then we've also got -- yes, absolutely. I mean I think that's sort of what we're pointing to in the outlook statement, yes? And then to the question about CRM, in the past sort of year, we have delivered CRM into our client teams. So that means now when they're going out prospecting for new clients, they've got a tool to do that. And we're certainly seeing that coming through in terms of we've now got better line of sight and prospects, greater velocity, and we're more aware of the bottlenecks internally in the organization. So we expect that to continue to support the resilience in bill payments. We delivered a significant tranche of CRM in the last financial year. Any of you who've come up to Welwyn and have the experience of walking around our retail ops function, if you'd be doing that a year ago, you would've seen that they were managing effectively the installation of our PayPoint One, our flagship product, effectively on an Excel spreadsheet, which we shared, regularly crashed, highly inefficient, not what you'd really expect in a modern business.

We've now implemented that model of CRM, so effectively the contracts now come in, goes into CRM system and goes out the other side to our installation partners. And that meant that you can really see that there's been a ramp-up in terms of the volume of PayPoint One that we've been able to install. We've been able to do that without adding any additional head count. And we absolutely could have not got the sort of 12,900 in that we did last financial year if we haven't had that new technology. So that's been really good for us, and it's actually also improved the sales to our retailers because they've got the kind of quicker, and we can see where things are.

The next thing we're going to now add on to that in the coming financial year is that our sales team, instead of going out to see clients and having virtually all sorts of paid contracts, they have to fill in [quite a standing over a fridge], is that actually they'll be able to do it seamlessly online, and that will then become joined up into the retail ops function. And then the last sort of item that we're going to need to add on there is a billing function which will go in over the summer. And then functionality that will also continue to act through this financial year is the ability for our call center, when a retailer rings up to know that -- who you are. You are Joe Brent, and you rang up 2 days ago being fairly unhappy about your failed direct debit, and now you're ringing up about the fact your pin pad isn't working, but at least we're now getting a holistic view of what's important to Joe Brent, the retailer. So that's just an ongoing program as we seek to modernize the business, yes? Does that help? Yes?

Patrick Headon, PayPoint plc - CEO & Director 25

Yes, and the CRM is an important project for us. We've got a big release coming later in the year. I was sitting down with a team leader yesterday, I've seen that [logic] paper, and we just got to -- we got to move on. There'll be benefits, customer service, therefore, customer satisfaction; more efficiency; and just more robust processes. We can't have those things on Excel.

William Kirkness, Jefferies LLC, Research Division - Equity Analyst 26

This is Will Kirkness from Jefferies. Two, please. Firstly, just on Romania, it was like Q4 net revenue is flat. So I was wondering if you could talk a bit about the outlook and what you can do about driving further retail services into that country. And then secondly, if you can comment about CRM and improving things at your retail network. Is that just around best practice and where you saw some gaps? Or where you getting worried about potential retail churn?

Patrick Headon, PayPoint plc - CEO & Director 27

Do you want to take Romania, and I'll take the second?

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 28

Yes, yes. So Romania, I think you're absolutely spot on, and what you saw in the last quarter was what we, I think, signaled at the half year top-up market in Romania inevitably now sort of turned into decline. So if we look into this financial year, that we absolutely do expect to get some sort of low-single-digit growth in bill payment transaction volume, but we've also been successful in delivering a price increase into the Romanian market in terms of our bill payment piece. We'll be able to tell you more about what that kind of looks like at the half year because we're still pushing that through, but it's that's -- that will, again, be a good driver of revenue growth for us in Romania, if that helps, yes?

I think Romania is a very interesting sort of economy, and I think partly for historical reasons where they've come from politically and lack of trust in probably institutions, particularly in rural areas, I think you'll see that cash remains quite sticky. And as a reminder, we've got quite a different business model in Romania. We've got 80% [product] brand awareness, and we're a consumer brand and we're almost a category. Quarter bill payments get paid for -- through a PayPoint store. So we're very sort of actually quite highly relevant in Romania in sort of society. So as well as the kind of stickiness of cash payments, which will sort of benefit the legacy business in Romania. I think the combination of our client relationships, our network and actually just our kind of technology and brand awareness will mean actually we can also be at the forefront of driving kind of change in the Romanian payments market. So we've got some quite interesting sort of innovations in terms of thinking about after payments as that starts to become an emerging category in Romania. And also, you can kind of see that we're really pushing forward on the card payments front. So quite a different model in Romania, but actually still lots to go for actually, yes. Does that help?

William Kirkness, Jefferies LLC, Research Division - Equity Analyst 29

Yes.

Patrick Headon, PayPoint plc - CEO & Director 30

Yes. Just to your point on customer satisfaction. You're right, there's been a lot of work done over the years, but I guess it was 3 years ago at least there was a real effort that was started to improve retailer sentiment. So I think it was very much sort of proactive rather than reactive effort that was laid out in the past. And that's led to some, actually, significant improvements. The one that always struck me is we have this IVR the sort of automatic phone system. It took a little while to navigate through that. Some work was done. The time in that for retailers was reduced by 80%. So yes, little things like that can make a big difference to our retailers. They've been done, and that sort of a number of our examples like that I can pick out, with progress. I guess what I'm signaling is just coming in new, I think there's an opportunity to do a couple of things. One is make sure just the whole organization recognizes the part they play, whether it's Rachel's finance team dealing with canceled direct debits, whether it's the install team that are dealing with [SIG] or installing the terminals or the customer service. The whole organization has got a part to play.

And we've got to focus on the things that will make the biggest difference. I can remember my eBay days, we were looking how to improve customer experience. And the critical element was what are the things that happen most frequency -- frequently that had the biggest impact on revenue. And the aim was to focus on those and get those right first. So those I feel are the opportunities that we've got.

So good progress that just actually would be recognized as there are a lot more to get it to where I want to be in that space. Makes sense?

Samuel James Bland, JP Morgan Chase & Co, Research Division - Research Analyst 31

It's Sam Bland here from JPMorgan. I've got 2 questions, please. First one was on parcels where, I guess, you've got a couple of things going on. You've got the step-down in Yodel revenue. You've got Yodel itself volume going backwards, but then you also want some new customers. I guess the net of those in the last year was the parcels as a whole went backwards. How would you think about going forwards and in the next FY '20, the net of those look? And do you actually see that the positives from the new customers more than offset the drag?

And then the second one question is on ATMs where I guess that market has been in the news a lot recently with the LINK -- reduction in the LINK rates, maybe other people going to surcharge. Has there been an update on how you're approaching that market and the strategy there, maybe there's some opportunity?

Patrick Headon, PayPoint plc - CEO & Director 32

Yes. Rachel, do you want to take those?

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 33

Yes. So just on the parcels point, I think if we just sort of look at the category of parcels, just so we're sort of along the same page, we've got effectively several sort of things going on there in terms of if you look at the 9.7 to the 7.3. So the first one is actually the step down in terms of the Yodel fees in the year, which was GBP 1 million. Yes, that was the Yodel renegotiation. So we're on the sort of improving trend there because we're going into this year with 700 and that's through and that's sort of the last year there.

Secondly, yes, parcel volumes were down by 8% for the full year, but actually when we're sitting here at the half year, they were down by 16%. They're actually, again, as we traded through the year, that has sort of effectively bottomed out, and I think it's clear to say that even the legacy part will not be a drag on kind of growth in this financial year. So that's an improving trend.

Then we've now got 4 new partners that we are adding into the network. They need to be up and running, and we need to be operationally robust by peak, so that's the job that we've got to do when we get back to the office after the roadshow. It's not just, there are other people there. Don't worry. But I think it is also worth pointing out that deliberately because we didn't want to make the kind of parcel rates too transparent as you might understand. We have put up a bit of revenue in that parcels, in all the carriers. And I would point to particularly which I sort of did allude to in my sort of my speaking remarks, is sims were down a degree because they reflect the decline in the overall top-up market, and Western Union was down probably a few hundred thousand because we moved from a model where we operated as effectively one of our products to a model in the year where we have just now operated, introduced the model of Western Union because clearly, with the customer legislation et al. that became quite a sort of regulatory kind of burden for us.

And so actually those 2 things in terms of sims and Western Unions, which were sort of drag on that revenue category are sort of now in the base. So for those 3 reasons, yodel renegotiation, parcel volume declines versus the prospects that we've got going forward, and those 2 are the one-off factors, we're confident about that sort of category going forward can get that back to growth. I don't know if that helps? Yes. Now I have to be very honest with you, Sam, I have slightly forgotten what the second question was, so if you could you remind me, that would be great.

Samuel James Bland, JP Morgan Chase & Co, Research Division - Research Analyst 34

It's on ATMs and also with LINK, what we have previously...

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 35

Yes, so it's probably worth just sort of recapping where we were -- where we are. So we still will be -- in fact, we saw that in the GBP 500,000 of net revenue that was down in the year of the impact of the LINK interchange. Now -- reduction. Now any sort of future reductions ineffectively being paused so versus where we sort of thought we were going to be, so that's a marginal kind of positive. The other thing I would point to is that our transactions were up by 3%, which is actually in the opposite direction to effect -- to cashless -- cash generally where I think cash withdrawals were down by 4% overall. So why are we operating slightly different dynamic to the rest of the market, and I think it's just because we've got a very kind of low-cost operating model with these sort of cellphone machines and retailers put their own cash into. So we're not into the business of men in vans, of filling things and all of that sort of stuff. So that kind of works quite well for us.

We do then have this additional sort of longer-term opportunity with the LINK over-the-counter service. And actually, the idea behind that is effectively -- use effectively PayPoint One almost to be able to give kind of cash out. And that will be very highly relevant in parts of the country that you really wouldn't want to be investing GBP 2,500, GBP 3,000 in a cash machine because they're just not the footfall. And where we are on that one is we're completely ready to go technically. We've recruited some retailers, I think, in Luton and Liverpool to go to trial because that's quite relevant sort of market base. But there still is some work that needs to be sorted out between the FCA and LINK on precisely how this is going to be regulated because it's quite a new form of, I guess, financial transaction. So we are working hard to overcome those wrinkles, but we are pretty much sitting with the regulators to let us go ahead to trial. And then we'll know -- when we've done that, we'll have more idea about the operational sort of robustness. Does it work for consumers? Does it work for retailers?

But I just think sort of intuitively this has got to be a fantastic solution for a market where actually people do not want to invest high amounts of CapEx and servicing of cash machines. And it's something that is an asset-light efficient model that can provide access to cash in many communities. And actually, it's something that actually we're very proud of, and we can't wait to get going on it quite frankly. Yes.

Patrick Headon, PayPoint plc - CEO & Director 36

But we are happy to wait...

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 37

Yes, yes.

Patrick Headon, PayPoint plc - CEO & Director 38

And I'd just echo those points. So from what I've seen, you probably all have seen that well received access to cash report. It identifies if we move to a cashless society, there are 8 million people who would really struggle, predominantly the less well off. So yes, there needs to be solutions for those people. And as Rachel has outlined, I think with our network, with some of our products, we're pretty well positioned to play a role in that, and we're very keen to do so.

Paul Gilmer Morland, Panmure Gordon (UK) Limited, Research Division - Senior Research Analyst 39

It's Paul Morland here from Panmure Gordon. Just a quick follow-up on the cost question where you seemed to be guiding to that sort of GBP 4 million to GBP 5 million increase. You're not guiding to any further efficiency savings in the U.K. You did GBP 1.9 million last year. So I just wondered why we shouldn't be factoring that a little bit there. Should we perhaps be factoring something into next year for more efficiency savings?

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 40

Well, absolutely...

Paul Gilmer Morland, Panmure Gordon (UK) Limited, Research Division - Senior Research Analyst 41

And also just a quick follow-up on that. I just wondered if you're looking at RPA at all to take cost out of the business, robots?

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 42

Robots. Two questions there. So look...

Patrick Headon, PayPoint plc - CEO & Director 43

Why don't you take the first one? I'll have the second one.

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 44

I'll be replaced by a robot, a distinct improvement.

Patrick Headon, PayPoint plc - CEO & Director 45

That's not where I was going.

Rachel Kentleton, PayPoint plc - Finance Director, Executive Director & Member of Executive Board 46

So onto the first one. Look, obviously, we are continuing to look at how we drive efficiencies. So in my finance function, we're always looking to see how we can do things here better more efficiently. In the IT function, they're doing a lot of work to actually look at the amount of money we spend on software licenses. Can we be more efficient? Are we over licensed et al.?

So we're always looking to see where we can do things more efficiently and effectively. But I think just the reality of where we are going into this financial year is we have a fantastic benefit last year from the VAT, which is absolutely the right place to be because we had a really big revenue headwind. So it was the right place to be to find something to help offset that. But just inevitably reverses out. And we've got some more money to put in around efficiency and business resilience. So I think what we sort of said on cost is sort of where we're at. I'm just trying to call things as we see them. And we're also very well positioned to drive top line growth, which ultimately kind of where we want to be because you can only kind of cost-cut yourself to profit growth for so long and actually, you've got to kind of change the dynamic on to how you drive that top line sustainable growth.

So onto your question about RPA. Absolutely, I think that is -- where we kind of need to kind of really be focusing our thoughts, in getting there. But I think what you need before you can really put RPA in is actually some decent underlying transactional systems to get them to work on top of. So for example, in the finance function, we are just on the cusp of replacing Sage, which is not typically a software system that's associated with a company of our scale with innovation, which is probably more sort of fit for purpose. Also we've kind of got that in. Yes, we can absolutely talk about RPA to look at kind of invoices and do all of that sort of stuff.

Detailed work that we're sort of doing down in the ops function around using CRM Salesforce to run the back-office, that will over time open up opportunities. But we just kind of got to go -- kind of we got to do a bit of catch-up on where we are on the legacy systems, yes? And that's sort of where we are. But you're absolutely right, that does open up longer-term opportunities to be more efficient.

Patrick Headon, PayPoint plc - CEO & Director 47

Right. Quite right. I'd just echo, where we're going to focus? We've got to walk before we run on all this stuff, and some of those basics need to be right. Robust systems that we can rely on, not based on Excel, but also to help us drive efficiency and customer service. I see those as top priorities. I would love to be getting to the next stage, but we're going to hold ourselves accountable this year on some very tangible CRM and those types of things.

Any more questions? Good. Well, look, as I said at the beginning, it's been a pleasure being here, delighted to have taken on the role. Big thanks to Rachel, in particular, for presenting here, but more importantly, for the work that's gone on within the team that I wasn't part of that delivered all these results. They are very robust set of results. We're very excited about the future. We see those opportunities. We got a very clear set of growth drivers. So you now know what Rachel does in the parcels department, but she also does one or two other things. So we will get on with that and look forward to seeing you at the half 1 results. But we're around. If you got any more questions, love to hear them.

Thank you.