Filename:
PAYP_20180524_edited

[00.00.00]

DOMINIC TAYLOR: Welcome to our full-year results, results talking about last year, during which we've made good progress on our strategic and operational plans. In particular, we've had a good financial performance. I think what particularly pleases me is that the underlying growth in net revenue has been positive. That's net of Collect+ plus adjustments and the headwinds of VAT. That's resulted in a profit before tax slightly ahead of expectations and has driven an improvement of operating cashflows by 6.5%, which I think really underpins the health of the business. Rachel, in her first year, has managed to reorganise the financing facility, we've now got £75 million revolver in place for five years. I'm also pleased that we've delivered well against our status strategic priorities, in particular PayPoint One, we're now at 9,000 sites, this is as of last Monday, well exceeding the target that we set ourselves of 8,000 for the year and that's really supplemented with the launch of EPoS Pro during the year which completes our EPoS proposition deal, primarily deals with stock, alongside a mobile app which we will be seeing a little bit more of later. We've also been able to integrate that platform into Booker and into NISA and we've got a number of other integrations to come.

I'm also very encouraged by the strong pipeline we've got with potential parcel carriers. I realise that you would all like to know who they are, we're not quite there yet in terms of contracts and signatures but we are committing to get a carrier live before Christmas this year peak and we're seeking to do another two next year. We've got a good momentum in MultiPay which is our multichannel, omnichannel payment solution servicing primarily the energy industry and also local authorities. Transactions have grown 88% and we've got nine new clients on board during the course of the year. Romania is performing well, buoyed up by the acquisition of Payzone which is now in the process of being integrated. The big theme of our results and the last year or so is to reorganise the business, to provide better innovation and customer service. I've introduced a new cross functional team called the Operations Management Group that were established to provide a much more frictionless delivery process across function to deal with the sorts of things that would occasionally frustrate retailers that we're now working our way through to improve the way we operate service. We've been very focused on getting product and marketing restructured so they work more closely together along with development to produce innovation faster. CRM has implemented four-hour new business and we're planning to implement CRM for the rest of the business in the first place which is this year and we've managed to reduce our costs in the second half by a £1 million.

The dividends for the full year is 45.9p, up by 2% which, alongside the additional dividend of 25 million a year I think provides shareholders with a strong return. Now this next slide is intended to just, I'll talk a bit about the journey we have been down and I will reflect back over the past three years, I think we've made really good progress in transforming the business broadly in three phases. And the first phase goes back to 2015/2016 where, with the sale of our online business in February 2015 and the mobile business in December 2016 we really were able to simplify the business and get it much more focused on the core markets in terms of retail that we have in the UK and Romania. And that then followed a phase of innovation the following year where we launched MultiPay, our omnichannel payment solution, launched PayPoint One and got our parcels renegotiation complete. And they were effectively able to invest in these new levers for growth which is playing out in these results. And so this last year is really delivery on that innovation in terms of rolling out PayPoint One, launching EPOS, strong volume growth in Multipay and Payzone remain in integrated boost Romania. And I think the future now, the reshaping phase or the transition phase of our business is complete, we're pointing in the right direction for growth and that's what the future is now about: by leveraging PayPoint One, launching new parcel solutions, protecting the cash generation capability we have in the business for bill payments as much as we are able to and growing Romania now with Payzone as part of that. So I would now like to hand over to Rachel who will take you through some of the financial aspects: Rachel.

[00.05.00]

RACHEL KENTLETON: Thanks Dominic. Morning all. Right, as you will have seen all the detailed numbers in the RNS so I will just focus on the key points today with you. So if you start from the top of this chart we can see that our gross revenue increased by 0.8% to £213.5 million and consisted of an increase in our continuing businesses of £10.1 million and a reduction of £8.5 million reflecting a disposal of Pay By Phone on the 23rd December 2016. The decline in net revenue from last year is a result of the sale of Pay By Phone offset by strong, underlying growth in the UK retail services from Romania. I'll talk about that in more detail later. Similarly admin costs reduced from £53.7 million to £46.5 million with an increase in the continuum business offset by the Pay By Phone costs which are no longer part of the group. The simplification of our business that Dominic talked about has meant that there is no longer a share of the joint venture profit or loss relating to Collect+ following its reorganisation in December 2016. In the year we have net financing costs of £0.6million arising from the utilisation of the finance facility during the year. Overall, profit before tax decreased from £69.1 million to £52.9 million, this is reflected in the disposals line in the prior year with a net profit on disposal of £15.6 million. Tax was 10 million reflecting in an effective tax rate of £18.9 million which is broadly in line with the UK statutory rate of 19%. Earnings per share decreased 63 pence per share, although last year's earnings per share obviously included the profit from the sale of Pay By Phone and Collect+, the organisation.

So as we've done in prior presentations here, on slide seven I have set out the continuing UK and Romanian businesses and excluded Pay By Phone from Collect+ from the 2017 comps to provide a clear analysis of our business on a like-for-like basis. This will be the last time we will need to show this slide. The gross revenue of £213 million increased by £10 million, a net revenue of £119.6 million increased by £2.1 million. The strong underlying growth in net revenue of £6.3 million is after the expected reduced yodel fees of £1.8 million in the current year and a one-off £2.4 million VAT recovery included in revenue in 2016/17. Other costs in revenue increased by £2.9 million and admin costs decreased by one million. I'll go into this in more detail later in the presentation but it's worth noting that the cost increases were waited to the first half of the financial year. In the second half we had begun to benefit from sustainable cost efficiency following a review of processes and suppliers. Overall, operating profit increased to £53.5 million up slightly on last year's £53.3 million.

Turning now to revenue, to help you better understand the growth drivers of our business going forward we set out for the first time in the RNS and here, in more detail, the components of retail services net revenue. We've shown the impact from the Yodel renegotiation and the VAT benefit on card rebate separately amounting to £4.2 million and this leaves a base of £113.3 million in which we've achieved good underlying revenue growth of £6.3 million. UK billed payment transactions declined as expected by 8%. However net revenue only marginally reduced by £0.1 million as we continued our strategy of pursuing higher-margin business. Pleasingly, MultiPay's momentum continued as transactions up 88% to £19.4 million. UK top-up net revenue increased by £0.8million despite transactions declining 15.3% due to increased average top-up values, growth in e-money volumes and the benefit in the first half of the year from last year's renegotiation of commissions. UK retail services showed strong underlying net revenue growth of £2.9 million to reach £37.7 million. This was primarily driven by increased service freeze of £3.7 million as a result of PayPoint One sites increasing by almost 5000 to 8550 over the financial year. We also saw a good mix improvement with growth in average service fee per site up by circa 70 pence to 14.68. Card payment rebate increased by £0.5million or 7.4% driven primarily by the 4.9% increase in transactions and the full year benefit of margin improvements secured in the second half of last year.

[00.10.00]

ATM transactions grew by 2.9% although net revenue declined by 2% to £12.8 million as a result of increased non-surcharge machines in our state where there's a lower net revenue per transaction. Given LINK's into change fee reduction we've spoken to you about previously we have commenced an initiative to reallocate a proportion of our PTM estate to the better performing sites and intend to reduce the capital expenditure associated with the ATM network to improve the cash generation of this part of our product portfolio. Also we are participating in the link over the counter cash out trial which is a lower capex alternative to ATMs. Parcel volume has increased by 2% for the full year however the strong growth in the first half of the year was offset by lower volumes in the second half. This highlights the value of our strategy to extend the service to other carriers and partners beyond Yodel. Net revenue Romania continued to grow strongly both organically and from a Payzone acquisition, the net revenue growth of £2.7 million comprises £1 million from the existing operations and £1.7 million from Payzone. Romania transactions increased by 28.6% to £96.4 million. We now have about a third share of the client bill payment market.

So now moving onto costs. As usual this slide is a complete picture of our cost base and in total the £66.6 million you can see for 2017/18 is made up of £46.5 million admin costs, £19.5 million other costs of revenue and net financing cost of £0.6 million. Full year-in costs increased by £2.4 million made up of the following elements: £1.2 million from including Payzone for the first time since the 1st October 2017, £2.7 million of VAT benefits, which basically comprises a two million benefit recorded in the year following the overturn of the 2015 HMRC ruling which required certain of our revenue streams to be treated as VAT-exempt, thereby reducing our VAT recovery and increasing our cost base. There's going to be an ongoing benefit of £0.9 million which we saw in this financial year and there's a further £1.5 million which relates to past year's recovery. There is also included in the prior comparatives, the one-off cost of £0.3 million in respect of the VAT treatment on the cards revenue benefit I talked about on the previous slide.

Other cost increases you can see on that slide include the reorganisation costs of £0.4million for implementing our new technology organisation. You can see a depreciation and amortisation chart of £0.8 million as part of our annual asset useful life assessment and then an ongoing £2.2 million increase depreciation mainly from prior year investments in MultiPay, PayPoint One and EPoS PRO and going forward, I'm not expecting any increase substantially in depreciation in this financial year i.e. 18/19. So you can also therefore see the £0.4 million we talked about the H1 which was the additional PayPoint One rollout costs. This cost has now levelled and will be broadly the same in future years so you shouldn't see a future year-on-year increase in that regard. And there's also another one-off cost increase of £0.8 million in the cost base related to the investment in CRM Salesforce. This is a key tool we use to deliver service to our retailers as we take our strategy forward. I've also presented a first half, second half analysis of our cost base on the slide there and this shows, as we indicated in the half year results that cost increases were weighted to the first half of the year. And actually we have delivered a reduction of one million in the second half which is largely driven by the sustainable cost efficiencies of £1.2 million in the area of third party costs that you can see on the waterfall below there. As you would expect, we have identified further areas for cost improvement in financial year 18/19 from the integration of Payzone, further third party savings and the organisation changes implemented in the past year.

Moving now onto working capital, this year we've had a really renewed focus on working capital and as indicated in our half year results we expected our underlying working cap the full year to be broadly flat and achieve this with the largest improvement being the reduction of our card rebate debtor from a three-month term to one-month term. As part of our review of working capital and financial structure we also reviewed our dividend and payment profile. The current dividend payment profile for one third payment in January and the final two thirds payment in July created undue fluctuations in net cash balances through the year. To more efficiently manage our cash balances going forward we have decided to transition from the 1st April 2019

[00.15.00]

to a programme of four equal dividend payments which will pay in July, September, December and March and this will not alter the total dividend paid within a financial year to shareholders. Finally, as Dominic mentioned we have replaced the previous financing facility of £45 million which was due to expire in May 2019 with a new financing facility of £75 million. The new facility has lower margin rates and expires in March 2023. Turning now to the statement of cash flows, profit before tax of £52.9 million adjusted a movement of non-cash items results in cash generation of £65.1 million, an increase of £4 million when compared to the prior period. This is really pleasing because it shows our ongoing strong cash generation which is underpinning our ability to continue to invest in innovation and continue to make good returns to shareholders. The working capital related to PayPoint is an inflow of £2.9 million and is the primary result of the VAT tribunal ruling I talked about earlier where we have collected VAT receipts from clients in advance of the net payments to HMRC. So this will reverse out in 2018/19. Corporation tax payments of £10.3 million are our payments on account and included in the net £8.6 million tax paid last year there was a refund of £1.7 million for 2015 and 2014 financial years. Capex was £13.4 million and I will go through this in more detail from this next slide.

You can see on this slide, Slide 12 we have shown how we have applied our cash generation. As you would expect firstly we spend about £4 million per annum on Capex to maintain our business. Then we invest in the growth drivers for our business going forward. You can see this investment peaked in 2016/2017 at £14 million as we developed PayPoint One and MultiPay and we also purchased a significant amount of ATM's and Unit 2. We've reduced this investment level in 2017/2018. We expect total capital expenditure going forward to be broadly flat and sort of in the range of £12 to £14 million per annum. You can also see finally the growth and dividends paid over the last three years as we commence the additional dividend payment. The board is confident in the strong business platform in which we can deliver earnings growth and continue with shareholder returns. The additional dividend programme of £25 million per annum continues until 2021.

UNIDENTFIED MALE ANALYST: (Quietly) Sorry you said you didn't expect depreciation for that?

RACHEL KENTLETON: Shall we take questions at the end just for those that are on the webcast, is that alright? Yes. Here on Slide 13 you will see that our balance sheet remains strong with net assets of £61.3 million of which £46 million is cash which is included in this figure, there is £27.5 million relating to client funds. Going down the balance sheet, good will increase to £12.2 million following the Payzone acquisition for total consideration of £2.3 million. Other intangibles increased to £13.6 million from £11.9 million reflecting the development of EPoS PRO. PPE increased by £1.1 million to £28.6 million mainly reflecting the roll-out of PayPoint One. Cash decreased by £7.1 million to £46 million. The negative £34.9 million working cap relates primarily to the client funds we hold on the balance sheet. We're holding a higher amount of client funds this year due to the timing of Easter, which fell on the 1st April and gave us an extra two days of client funds.

Finally, to conclude this section let's review the outlook for financial year ending 31st March 2019, the 2018/19 financial year does contain headwinds of £5 million related to the DWP contract reduction and the second year impact of Yodel renegotiation. You all know these because we talked about them this time last year. We will implement IFRS 15 using the reduced retrospective method. We expect that impact on profit before tax before 2018/19 because of this change to be deminimous. Reshaping and investment we've made in our business has created growth drivers for us though. In the next year we plan to continue to embed PayPoint One in our network to reach 12,400 outlets by the end of the year together with further mix improvement. We anticipate volume growth and card payments, we've got a compelling parcel proposition which was reflected in the strong pipeline offer opportunities and our intention is to have at least one carrier or partner live before peak. We will continue to add clients to MultiPay and we also have our Romania operations which will drive growth both organically and from the Payzone synergies.

Despite these headwinds our final outturn for the forthcoming financial year will be influenced by the timing of and volumes of new parcel contracts, the board anticipates progression in profit before tax in the financial year as the growth drivers in our business continue to develop. Now I will hand over to Dominic to complete the rest of the presentation.

[00.20.00]

DOMINIC TAYLOR: Thank you Rachel. So the fundamental theme of PayPoint moving forwards is that we want to embed the business at the heart of convenience retail and that's really now, that's our new direction of travel. And that is very much assisted by what I regard to be a unique business model. We have a whole range or portfolio of different revenue generated products at the top of the page that will either drive footfall into the store and generate transaction income or they provide service based revenue back into the business. And obviously, those revenue streams flow through our retail capability. And in the UK and Romania our retail networks are bigger than the banks, the post office and the supermarkets put together. They are the definitive convenience networks through which these sorts of things are done. And what I find really interesting about the model is that the platform, the box in the middle, that supports all of that which probably technically wrongly but I rather regard to be broadly fixed cost is there, has got lots and lots of know-how built into that, whether it's about the technology in the store, the back office, the processing, whether it's about the way we support retailers through the call centre, through the field, whether it's about our robust settlement systems that are somewhat unique in that they settle both ways to 20,000 retailers in the UK on the one hand to about 400 clients and we process about £10 billion of value through those settlement systems every year or whether it's about the operational support designed to keep the service available to customers in the store. So for example, if one of our terminals goes down and we can't reset it from the call centre with a software download we commit to replace that 97% of the time within four hours anywhere in the UK. I don't know of any other technology provider in this retail space has got that level of commitment to keep the service up.

And of course, all of that leveraging that platform against the revenue provides greater margins, strong cash generation and the best innovation that we see playing out through the results. You might think well "So what, why does all that really matter?" and it starts to come alive when you start to get competitors coming up on a single product basis, like parcel competitors. So Hermes, for example, are seeking to establish a network of parcel shops. They don't have this box in the middle, they've got to find the retailers, they've got the technology in from scratch, they've got to build contact systems, settlement systems and everything that I've described. In our case it's already there to it's very easy to apply new products using the capability we've got in the middle. The same would apply to ATMs. Unlike other ATM operators we process all the ATM volume ourself, we settle the money back to the retailer because they are all self-fill. Sell the money back to the retailer ourselves. And we're also now with this trial that has been alluded to able to leverage the fundamental network to provide a non ATM cash withdrawal service for consumers which is the essence of the trial. So this network in this business model is very powerful asset as we seek to provide service that the consumers expect in their local shops.

And when I then start to look at our product portfolio and as you will appreciate, this is a standard BCG with growth on the horizontal axis and cash generation on the vertical just like you would or any investor would with regard to their investments we look at our products effectively as a portfolio. And as you can see we've got firmly in the cash cow quadrant, we've got over-the-counter bill payments and top-ups. They generate about £350 million footfall visits a year through our UK network and they generate circa £50 million worth of cash which we're able to invest in the new emerging things. And I should explain that the light grey, or light blue, depending on how you see it picture is where we think the circles are today and the darker colours both in yellow and blue are where we expect them to be in the future. So for example, Multipay, as a product that we only launched 18 months, two years ago is obviously being invested in at the moment and we expect that to be very attractive to clients and we expect that to get to cash generation.

Likewise, ATMs, ATMs have always been profitable largely because we are able to leverage the platform I was just talking about earlier on. And obviously that's a challenge face at the moment with the threatened income decline to ATM operators by a link but we are going to manage cash growth by being very discerning about the way we invest in new kit looking forwards. What next? Romania. Romania is now cash positive, it wasn't for many years as we built the network but the network is now cash positive. And there's enormous growth opportunity in Romania but that will require further investment to realise so we don't see lots of cash generation coming out of that but we do expect growth to come through.

[00.25.00]

Parcels. That's always been cash positive again because the retailer is already there, the terminals are already there, the settlement system is already there so we are able to launch that business right from the beginning in a way that became profitable. And we've got great plans as we've already alluded to about growing that parcel business by assigning other carriers and that will require some investment as we improve the multicarrier solution in store and train retailers etc so we will see that both growing and generating more cash. And then finally PayPoint One clearly that's only, that's less than two years old now. We're investing heavily in it, the new kit, rolling that out and also developing the eco-system, we'd expect that to become cash-generative and grow in the future. And core to all of this is innovation, the square box at the bottom. A big theme of this transition we've gone through is to get the business back very focused on innovation. We've had a very innovative history going back for many years and you now see this innovation coming through and some of these new products, funded by the cash cows of the businesses in the top left-hand corner.

So that's encouraging. The other encouraging thing is that convenience retail is the place to be at the moment but of course as we all know there is a significant change in the way in which we as consumers want to get our stuff done now. We tend to buy stuff online, we tend to want to go to large shopping centres where you can be entertained at the same time like Westfield, investments in those shopping centres are enormous and therefore they are getting ever further from on average from where people live. The high street as a consequence of all of that is in a well-publicised decline. There are announcements regularly now about the shift and what's going on in the high street. And that leaves the local shop as the place that is there to serve consumers and we're there to help them do that. And if you look at the chart on the top right this is IGD, they predict that convenience is only one of three channels growing for grocery spend between now and 2022 and they predict that £7 billion more revenue is going to be available in the convenience space. So that's why it's exciting and from our point of view when you look at the convenience retail space, this circular chart on the bottom right and we define convenience with a small C slightly different from pure convenience retail. So we include within that forecourts, supermarkets, specialist CTNs and specialist off-licence and that amounts to 66,000 sites of which roughly one third are multiples driven mainly by supermarkets but also including Tesco Express and Sainsbury's Local and so on. And then the balance are all independent retailers of which about one third of that sector are aligned to symbol groups through affiliated relationships with Booker or CostCutter. And so that is the sector that we are most relevant to be able to serve and we seek to do that, not only by driving footfall into the stores by investing into this new technology to help these retailers up their game, to realise their opportunity as convenience segment grows. And obviously PayPoint One is part of that but also the whole range of services as you can see, in the darker purple on that bottom chart ranging from bill payments for ATMs, card payments etc. etc. And in the context of our capability I don't know of any other provider in this space that has as deep a stack of capability the sorts of things we're able to leverage through the local shop, whether it's square, all the card payment solutions than we do. And that is our strength and that's what we're seeking to exploit.

So core to that is PayPoint One so how are we doing on PayPoint One? Well we've had a good year, there's no question, we hit our target of 8,000 by the year-end. As I said, we're now at 9,000 and we intend to keep that rolling out for the rest of this year. You can see strong growth on the table on the top right of all our products during the course of the year. EPoS PRO at the moment stands at about 224 live. And we've also seen an improvement in the average service fee. The EPOS PRO is particularly important because it provides the complete EPoS solution that managers not only pricing and sales but also the whole fulfilment of stock into the store and what it's bought for. Integration into NISA and Booker is really, really important for us and we have also launched what we call news management, which basically allows retailers to manage the daily sales of newspapers and magazines and so on, both those that are sold and those that get returned, through a very convenient app. And it's another example of how we're really seeking to bespoke our solution into the sweet spot of what convenience retailers want and need. Our mobile app, which I'll be doing a short demonstration of in a second, has also been launched and I think it allows retailers to generally, run the stall from their pocket in particular. It frees the retailer from being stuck behind the counter and allows them to run their business properly as a business person. So, that's what we've achieved during the year. There's a big opportunity to evolve this ecosystem and broadly speaking it slots into three fundamental phases. The first phase is we want to get these devices populated across the independent estate that we serve. So, there's a big pressure on rolling out which is why we're setting ourselves quite aggressive targets to achieve that. We then want to upgrade the retailer through the product range if he doesn't go straight to pro. We'd like to work with the retailer to move them through the product range. And the we want to persuade the retailer to use the product effectively by scanning the goods in and out from which we can then ultimately source data. There's a whole roadmap relating to this proposition that is designed to make it even more friendly for the retailer. It's currently only on an android phone but we want to get iOS enabled later on during the year and a whole load of other things, like the internet of things for the store, connectivity in the store that we want to build into the proposition to really make it work. And we're also working quite hard on trying to understand how we can unlock the value of data, which I think is particularly important for the supply chain looking at these independent retailers where they've previously not been able to understand what the retailer is doing, it's been a bit like a blackhole. And what we want to do is shed light on to the blackhole through data that will allow the retailer to benefit from value and the FMCG supply chain serving it. So, that's progress on PayPoint One. There's now going to be a very short video clip which talks to you a little bit about the mobile app and hopefully will bring to life the capability of PayPoint One, the PayPoint One system.

[VIDEO]

DOMINIC TAYLOR: So, hopefully you'll see that this short video demonstrates the way in which we can release the retailer from the counter, demonstrates the interofferability between the app and the core device, and also shows the degree of real time management the retailer can apply to the way they price stuff, they stock stuff and they order stuff. And basically allows the retailer to run their store, as it were, less as a shopkeeper, more as a businessperson. And so, there's also a big question as to what is the value of all of this to the retailer in the store? So, we've done some calculations to, which is less about what the retailer pays but what value we can drive to the retailer. The average typical corner shop will turn over about £1.2 million a year and they'll invest in one time about £20,000 in stock. Okay? And if you were able then to, on these five steps, the average margin for such a convenience store is about fifteen percent which is about £3,000 relating to the £20,000 worth of stock. If they can improve that margin by, to 20%, that'll generate a £1,000 of value to the retailer on each stock turn.

[00:35:05]

If they can improve the rate at which they sell the stock and on average it takes three weeks to sell £20,000 worth of stock, best practice says it should be a week, so if they can improve the three weeks by a week, over a year that will generate £70,000 further value for the retailer. The next three categories relate to turnover and it's really about how they manage the stock. So, if they're able to reduce shrinkage or theft, if they're able to reduce wastage, by sell by dates being missed and therefore the product's got to be thrown away, or are able to reduce situations where they're out of stock because consumers are coming in to buy stuff they just don't have anymore, and they can improve all those three indices by 10%, that'll generate £10,000 value to the retailer. So, these are the sort of messages we're now beginning to talk to retailers about, about how we can help them improve their businesses to drive more value to them and as a result drive more value to consumers. Okay. So, we've got a lot on and we've got some clear strategic priorities that we've articulated into the business for this year. They're fundamentally four, the four yellow boxes across the top, three of which relate to today and one of which relates to further innovation for tomorrow. Core to that is embedding PayPoint at the heart of convenience retail. We then want to become the definitive parcel point solution for the industry, getting more carriers on board and so on. We are very focused on sustaining our leadership on pay as you go products, whether it's over the counter bill payment or mobile. And we're very focused around keeping the innovation going to fuel the existing products and create new products. And these priorities will be broken down into functions and sub-functions of the organisation as is relevant to them. Just to give you a flavour of the sort of things that we're looking at, you know, we want to deliver CRM within the business to drive business change and help us see that one single view of the retail relationship and improve our service to retailers. We want to develop agile that Rachel referred to in the organisation to improve the way we develop stuff, get it faster to market. We want to complete the integration of Payzone in Romania and we're really focusing on driving a strong performance-based culture which is very retail centric, focusing on the retailer's need and driving real customer service to them. On the preparing for tomorrow, we're super excited about this over the counter LINK trial. It is effectively, from a consumer perspective, it's sort of like cashback. You can actually ask for precisely the money you want, £3.76. It's not the same as an ATM. So, we're excited to see how that trial goes and if that is successful, there is the potential to start the roll out across our network. Card payment net settlement is a key opportunity for us where retailers process cards through us, where they want their money back from the card acquirer that processed the transaction, we're able soon to be able to settle that money back to the retailer, netting it off against the cash that they owe us for bill payments. It becomes very powerful because then that saves retailers with banking costs and so on. We want to launch T4 for Romania because Romania is, the predominant solution over there is T2 and we want to provide the new technology to replace that in time. The eco-systems going to continue to evolve, as is direct debit solutions to complement our other payment solutions on MultiPay. So, those are the key areas of focus and we have decided to project what we're doing going forwards into a roadmap. So, just quickly running down the lines, you know, we've publicly said we're going to achieve 12,400 PayPoint One sites by March next year and we're announcing as part of these results the sunsetting of T2, which will take effect from effectively January 2020. And that's a good clear warning signal to tell retailers that that terminal's going to disappear from that moment and from that time we'll be able to work with them as to how we then get PayPoint One into the balance of the estate. And T4 I just mentioned which we plan to get into Romania in, from this time next year effectively so we can start rolling that out to replace T2's there. There's lots of activity in the EPoS swim lane. ATMs, likewise, a lot of hope coming out of this trial, if it's successful, to spread that across the base.

[00:40:00]

I've mentioned that settlement for cards. Parcels, I think I've said, we're going to get on carrier live before Christmas this year, two further next year, and multi-pay the addition of some payments technology. And that's half our business in terms of products. The other great emphasis in the business is around customer service, where we're going to implement CRM, the two key phases over the next two years to improve our retail relationships. We're changing the whole IVR interface so that when retailers call in we can engage with them better than we currently do. There are going to be a whole series of customer service improvements, not least driven by this operation's management group that I mentioned at the beginning, this new tier of managers that are working across function to remove friction and improve processes for retailers, and we're adopting agile. And put together, the unique business model that we have which is underpinned by the retail network that we've created, the footfall we drive into it, the fixed cost operating platform that we've got to support it and the cash that generates, plus the market opportunity being presented by the change of consumer behaviour which puts the convenience sector into the spotlight of opportunity, plus the clear delivery roadmap that I mentioned on the previous slide, I think means that PayPoint is uniquely placed to benefit from market growth. And that's where we're now headed. So, by way of a summary, with a good performance in the year that's just closed upon which we're reporting, the business is reshaped and there's now well-positioned for future growth. We have a clear strategy to capture market opportunities across a strong portfolio of products which we're investing in, as you'll have seen from the BCG I've shown you. The company is being reorganised to enable faster and more efficient innovation and that will continue. And we have prioritised cash allocation framework in order to commit to driving investments, driving strong shareholder returns. That's the end of the presentation. We'd be very happy to take any questions. Paul, I don't know whether you want to go back to the question you raised earlier on? Yeah. Sam?

SAM BLAND (JP MORGAN): Hi there, it's Sam Bland from JP Morgan. I think I've probably got three, if I can? First one on, obviously pretty obvious now that there's a fair bit of growth coming through in retail services from various angles which is very good to see, can you give us an idea on how much more overhead and central costs might be needed to support that growth? My guess is it's probably got a quite high fall through to profitability. Second one, obviously the ATMs, I just wonder post that LINK announcement, have you seen any other ATM networks maybe reassess their plans, possibly start withdrawing some capacity? And, you know, my sense would be that that new over the counter proposition actually could be quite a capital light way of expanding where those competitor networks are shrinking. And then, just, I guess, obviously a lot of growth elsewhere but I just want to get a little bit of reassurance on the bill and general side that as maybe as smart meters get rolled out a little bit more, we shouldn't expect any acceleration in the rate of possible decline in bill and general. That'd be great. Thank you.

DOMINIC TAYLOR: Do you want to answer the growth question? The first one.

RACHEL KENTLETON: Yeah. So, I would sort of think of it in, you know, various components, right? So, you know, clearly, if you think about the last couple of years, one of the reasons we've sort of seen the cost base go up is we've had a couple of years of £2 million worth of income increase and depreciation. Now actually, as we're kind of getting the, you know, Capex is starting to level back out again. That's why we're not expecting substantial increases, kind of, going forward in that regard. Yeah? Then, you know, we've also got in the financial year, we've got obviously Romania and you know that we've put six months of additional costs into the last financial year before Payzone. So, you can expect another six months as that business continues to integrate. Albeit we'll start to see some synergies over time. And then actually, if you look at the UK retail services business, for us, there's always I think a tension between continuing to innovate in our products because something like PayPoint One is always something we're going to need to add new functionality to and therefore we need to fund because that's where our future growth comes from. But, you know, we have been able to establish, in the last year, procurement function. So, we're also now getting, you know, much better efficiency out of some of our third party suppliers and just being tighter in that regard. So, you know, that is kind of how I think you should think about the cost base going forward, you know. Depreciation, you know, more or less back in line. Romania, continue to see some cost increase in that regard, which you sort of expect. And then the UK business, clearly there will be some sort of a pay inflationary increase and, you know, we continue to need to invest and innovate. But equally, we have got a better grip on our third party costs now so we're able to offset, in large degrees, some sort of efficiencies. Yeah? That help?

[00:44:59]

DOMINIC TAYLOR: So, on the ATM question, as you'll all know, there's been a projected decline in ATM income for operators, 20% over four years and the first piece of that's happening this year. For sure, if you're a pure play ATM operator typically with a higher copper cost base than we have because they'll operate cash in transit, replenishment of ATMs and so on. That'll definitely be a challenge and there's been, you know, quite a lot of talk and speculation what that might mean for the size of the UK state to service cash paying consumers. There's been some broadsheet commentary around how, to what extent will consumers be deprived of places to take cash out and, and, and. I think, you know, from a PayPoint perspective, we operate relatively speaking a cost light model, so we don't do cash in transit. We leverage the platform we've already built, which I think I articulated during the presentation, and we definitely see, irrespective of the trial we're going to be doing with LINK, we definitely see opportunities, you know, to look at sites that another dedicated ATM operator may no longer feel they can service and probably take the view that we might be able to do that profitably because of our cost advantage. And we're, you know, actively involved in seeking those opportunities out where appropriate. I think the trial though, you know, gives a completely new different opportunity no doubt only to us, I mean, there'll be other networks that have the potential to do that too, but we're obviously very well placed to provide that service, A because of the nature of the convenience network and its proximity to where the consumers live and work, and B because we're used to giving cash out, you know. We've done that now for four years for the DWP, we're used to giving cash rebates for energy companies and, and, and. So, you know, I think net net we see a good opportunity there for us depending on the success of the trial. With regard to bill payments and so on, I mean, this is, it's very difficult because there's so much going on in this space to attribute any particular dynamic to any one of the elements, if I can put it that way. So, what is going on in this space? Well, you know, there's been an explosion of new energy companies that are driving massive share away from the big six and, you know, we're in a lucky position with our MultiPay proposition to be able to serve them and those volumes are growing very strongly, and we are typically able to drive a higher margin per transaction than we would do with the big six. So, that's, you know, that's encouraging. We're also through multi-pay typically able to help the energy companies target consumers that wouldn't be our traditional consumer, namely ones that go into store or ones that would rather top-up electronically via the app or whatever else. The other dynamic is that there's a whole change of meter going on from analogue, if I may call it that, to not so smart and then eventually to very smart, by which I'm referring to SMETS1 and SMETS2 meters. And the latter meter will only function with the DCC being set up by Capita which is live for credit customers and as soon as you go live for pre-paid customers. And I think that's causing quite a lot of confusion around speed of deployment and the ability for energy companies to present the new ways for their customers. So, I think there's a lot of turbulence there which is probably working in our favour because it means the analogue meters that are still out there are still being used and there's less pressure to pull them out immediately, although they will eventually come out. I guess the other dynamic is that, you know, what is the cash paying consumer going? Are they all going to other forms of payment? I, you know, it's quite difficult to track that by us, but you know, our volumes I think, I mean, they've been in moderate decline of about 8% within the year and, yeah. I mean, I don't see a seismic shift away from cash payments, we don't see that in the stores either. And I suppose the other dynamic, which none of us have real control over, is weather. And, you know, we've been blessed with very hot days in the last week or two, but we also, you know, it was very cold not so long before that and obviously that drives more volume. So, quite what is attributed to what in that mix, I don't know. But what is very clear is that there's not been a seismic decline in our bill payment revenues. We've been able to have more levers to mitigate the impact of volume decline, and even the volume decline hasn't been a seismic fall away either. So, you know, we're going to keep working to do our best. We are the natural place for people that for whatever reason want to pay in store are able to do so and we're just going to keep working that and also grow MultiPay to attract other customers that are not those that would go in a store. Does that answer your question?

SAM BLAND (JP MORGAN): That's great, thank you very much.

[00:50:00]

UNIDENTFIED MALE ANALYST: So, my question's kind of connected to what the previous question was saying about both capital light expansion and also drop through was mentioned as well so operation gearing basically. So, there's a couple of headwinds still this year that we all know about, DWP and Yodel. But if you ex those out, you know, you are, look as if you're moving into growth phase, you know. So, one, is that going to be capital one growth? And I'm thinking of the working at the negative working capital on the balance sheet, you know, can that continue to be negative working capital when perhaps the mix of growth is coming from a different place? And secondly, the drop through, the operational gearing, you know, how should we think about that in terms of, you know, where margins can get to? Because it does look as if you've got a relatively fixed cost base.

DOMINIC TAYLOR: Yep, you want to just take some of those, Rachel?

RACHEL KENTLETON: Yeah, well, I think, you know, you're absolutely right, kind of, in your observation that we've got £5 million of headwinds going into this financial year and then we've got the tiny tail end of the Yodel piece in the following financial year. But largely, those kind of structural kind of one offs go this year. Well, I think you can kind of see that actually we have very good momentum in service fees and PayPoint one. Clearly the other key piece is parcels, you know. Clearly to be proven because we've got to get the deal signed and get them up by peak. But actually, you know, those parcel deals really don't tend to particularly cost heavy because you need to add a few more, sort of, operatives down in the call centre and retail ops and there's a little bit of development cost to add people on. But actually, that's largely revenue drop through. So, certainly, kind of, in the UK business, actually, the sources of revenue should really be, you know, very sort of, highly sort of, highly margin-accretive, yeah? Romania I think is a slightly different piece because on one hand, you've got the benefit of, actually, synergies coming out of the Payzone business. But actually, also, you know, we'll need to continue to invest in that business as we transition to a T4 piece. So, you know, I would expect actually, kind of, you know, margins in Romania potentially to be under slightly more pressure. So, I'm expecting, you know, strong top line growth but a little bit more pressure on the margins in Romania. But then, in regards, I think, you know, let's talk about Capex. Look, you know, I think it's quite dangerous to kind of point to a very precise number on something like investment because, you know, if we had a fantastic idea to innovate tech business forward, you'd obviously want to invest behind it. I think if we look out for our sort of, you know, five year plan, you know, we're fairly comfortable with something in £12-£14 million range, should be about right, you know, as we've talked about earlier. The point about the kind of working capital piece. I mean, not withstanding the fact that we are transitioning this business much more to a retail services business and, in time, that will become the largest part of our, sort of, revenue base. You know, we still process between sort of clients and our retailers £10 billion worth of payments. So, actually, that kind of fluctuation actually in, you know, when year end happens or half year happens, you're still always going to be the largest determinant of our working capital just because it's such a high volume of payments that we just manage through that part of the business, you know, for a very long time to come. Yeah?

UNIDENTFIED MALE ANALYST: Thank you.

WILLIAM KIRKNESS (JEFFERIES): Thanks. Will Kirkness from Jefferies. Just two please. Firstly, can you say how many totally new sites, so totally new retailers have taken PayPoint One? And then secondly, just thinking more long-term, you used to talk a bit about new countries, is that an aspiration at all or is that of the agenda? And is there anything M&A wise that might help you deliver the strategy sooner or is mostly an organic story?

DOMINIC TAYLOR: Okay. So, on PayPoint One, we're in the deployment of PayPoint One we're not primarily chasing new retailers. The key objective is to swap the technology from the existing retailers. And inevitably some won't take it and we inevitably are attracting some new retailers. And indeed, the business model would support getting a wider base on board. So, I don't know what the precise number of that, I'd say it's about a 1,000 or 2, probably of that order. I mean, it's not massively material on the context and we've netted out, so we're still about the same overall network size that we were a year ago, in round numbers. So, that's that question. In terms of, what's the middle one again sorry?

WILLIAM KIRKNESS (JEFFERIES): It was just longer-term aspirations for the new country.

DOMINIC TAYLOR: That's right. New country, yeah. So, the key priority for our business is to, as I've stated in this presentation, is to completely embed ourselves in convenience and to really leverage the networks that we've already got to seize that opportunity.

[00:55:01]

We've come a long way in two years, but we've still got some way to go before that's completely landed. Is this proposition appropriate in other countries? Intuitively, it obviously is. We're not, we don't have, you know, anyone abroad looking at those countries at the moment because we're primarily focused on this. You know, I'm not taking it off the opportunity list in the medium term but it's not something that we're proactively working on at the moment. As to potential acquisitions, I mean, we're still working all this stuff through. I think this idea of the ecosystem and what that might mean and how we can exploit it beyond the service revenues we're generating from PayPoint One and how it, as I said during our presentation, how we can start to shed light on the blackhole of independent retailers where there's no visible data and so on. I think that's a really interesting opportunity. We're still trying to work through what that might mean ourselves. You know, could there be a potential acquisition of a stepping stone in that direction? Maybe. Again, we're not actively looking for acquisitions at the moment, we just want to get through the thinking based on the experience and learning we're gaining every day to be able to, you know, to chart that journey out more thoroughly. And we've got a lot to do in the meantime in just moving down the road map that we've actually articulated. So, we're not carried away, we're not sort of chasing, we haven't employed agencies to sort of find things, you know. We're just focusing on our [INAUDIBLE] and making that happen. James?

DOMINIC TAYLOR: That's alright. Let's do Joe first then we'll get the microphone to you. Joe.

JOE BRENT (LIBERUM): Three questions, if I may? Firstly, probably for Rachel, given the complexities around working capital, could you give us some indication where you think it'll actually turn out in 2019? And then, secondly, on PayPoint One, you give an indication of where the terminal estate might go, could you also give an indication of what the pricing future is of PP1 given it is clearly a valued product and there is maybe scope to increase prices on it? And thirdly, on CollectPlus, you say you'll, another partner will be operational this year, could you give us an indication of whether you think future partners will be, whether size will compared to Yodel? I mean, are these going to be small deals? Are these going to be potentially larger than Yodel? Could you just give us some indication of the volume you'd expect from new partners over time?

DOMINIC TAYLOR: Right. I'll answer the second two then and leave you to go through the first one. So, the Collect+ margin, I mean. The prime objective as we roll this out is to replace T2's with PayPoint One. So, that's why we're setting a very bold target by way of PayPoint One growth during the course of the year. We obviously, as I've said, expect to upsell the product range in the process. That's not, I mean, it is a key objective but it is not, you know, the objective that we're heralding and we're not releasing what the average per site income that we expect by the year end as part of these results. We obviously have internal targets. We'll see how that goes. Critical to that will be pay for EPoS Pro at £30.00 a week. One of the reasons that we've started to seek to better articulate the value offer for the retailer, that slide that I showed you, what the retailer, the value the retailer has the potential to earn out of this is to in a way seek to help the retailer better understand that it's not about the price we're charging at £30.00 a week, it's actually what value they can get out of the equipment and, you know, if we're successful in that, I'd expect, you know, stronger penetration and the average income per week will go up. But we're not stating, you know, to what level at this stage. The question around parcel carriers is it bigger or small. Yodel is not that big. They've got about a 6%, 7% share of this market. Obviously the bigger player, the biggest player would be the Royal Mail, followed by Hermes and Amazon and so on. You know, I don't really want to give you a steer. And obviously, what we want to do is sign up carriers that you'll all know and there'll be some that are bigger and some that are smaller. We don't really care. All we want to do is get them signed up, so their customers start to use the service. And the end game is designed to provide for the consumer, irrespective of the carrier, a service at the local shop they can rely on to do their whole parcel thing, that's really what it is. So, we've just got to work our way through them gently. But you'll find out when we announce.

RACHEL KENTLETON: Right. Working capital. So, I think the best, the most easiest way to think about this is, you know, the two sort of big movements that cause the inflow this year will reverse out next year.

[01:00:00]

One because, you know, the three point six million from the VAT tribunal that we sort of collected on behalf of HMRC, that will reverse out this financial year because we'll remit it over to HMRC. And then the other big piece was £5.4million of client funds because we had held two extra days of client funds over the Easter period. So, from memory, I think Easter is a bit later this year and doesn't fall on the year end so that will also reverse back out. And then if we can find any efficiencies, you know, in our business, obviously we will. But I think we just need to back those back out, those two movements. Yeah?

DOMINIC TAYLOR: Okay. I know there's a question here. Where's the microphone.

JAMES GOODMAN (BARCLAYS): Thank you very much. James Goodman from Barclays. Perhaps just before we move to the question, a quick clarification on the working capital. My understanding's always been that your payments working capital is held in aggregated client accounts and you can't use that. Is that right and we should look at your cash really excluding really these movements [INAUDIBLE].

RACHEL KENTLETON: So, there basically, the reason, obviously, we are always kind of clear about what is our cash, you know, and what is client funds because actually there are some client funds that are held on a balance sheet in terms of, you know, there are some funds that are not and some that are, depends on the terms of the agreement. Yeah? And that's why we tend to be quite kind of clear about that. Yeah?

JAMES GOODMAN (BARCLAYS): But what you split out as client funds you cannot use for your own development purposes?

RACHEL: Well, we would, yeah. Yeah.

JAMES GOODMAN (BARCLAYS): And then, this is the main question I have, really is just understanding your level of confidence in the guidance around the profitability for the full year. So, unless I've misunderstood, the VAT issue also will add a £1.5 million headwind to your profitability this year, so you've got some £6.5 million to make up to get to an equal or growing profitability position. That's an encouraging message around the growth but what I'm trying to understand is how much of that is dependent upon new parcel contracts and how much of that is already embedded within some of these growth areas you've been talking about within the existing businesses.

RACHEL KENTLETON: I'll answer that from a numeric then I'll hand over to Dominic probably on the parcels point. But I think stepping back on this, you know, we've got opportunities because actually, you know, we've got, you know, more sort of revenue to come from Payzone. We've got, you know, the inherent, organic revenue growth in Romania in any event. You've kind of seen the momentum on the service fees in PayPoint One and that will come forward even more as we roll out more PayPoint Ones. And then clearly we're getting some more efficiency around the cost base. So, they're kind of all positives, you know, clearly signalled that, that you know, there's obviously parcels and that's kind of dependent on getting this carrier up for peak which we're very committed to and I'll sort of hand that over to Dominic to give you a view on that. Yeah?

DOMINIC TAYLOR: Yeah, I think the reason we've been much more confident that we have been in the past is we're much closer to getting to the point we can announce it, we're just not able to right now. And so, for sure, a piece of our future revenue growth is related to parcels. You know, we've said in the RNS that we have visibility of 60 million transactions, we do about 22, 23 with Yodel at the moment. We need to get the volume from other carriers and we've geared up a team to talk to these carriers. We know how we want to integrate them. You know, we're thinking very hard about what the instore experience might be and how we're going to make that work. So, yeah, I mean, short of telling you who we're talking to which I can't, we obviously feel we're close enough to be able to say something soon and that will be the one for this year that we're planning, at least one, and then we'll see what happens next year. But we're looking for two next year.

RACHEL KENTLETON: I think it also just a function of commercial reality, that no revenue across any of the revenue streams is ever delivered until it's delivered. You know?

JAMES GOODMAN (BARCLAYS): Yeah, sure. My question was more within your budgeting, how much is dependent on parcel expansion? But that's fine. And just then on Payzone, you mentioned the additional revenue coming through, how much was there in this year? I've probably just missed it in the release but what was the gross net and profitability from Payzone in the second half of the year?

RACHEL KENTLETON: Payzone. I'm glad you asked that. I have that on my crib sheet in front of me, so I'm pleased to have the opportunity to use that. So, basically, net rev from Payzone was £1.7 million, yeah? And then the cost were effectively £1.3 million, broadly. Yeah?

JAMES GOODMAN (BARCLAYS): And we can double it?

RACHEL KENTLETON: More or less, yeah.

JAMES GOODMAN (BARCLAYS): Okay. Thank you.

DOMINIC TAYLOR: Are there any more questions? Great. Well, we're available here. If you haven't seen the EPoS solution and PayPoint One work, we've got one live at the back and Ahmet, who's got famous hands because he's in all the demonstrations in the films, will take you through both the app and PayPoint One. Thank you very much for coming.

[01:05:04]