PayPoint Group


Nick Wiles, Chief Executive
Alan Dale, Finance Director


25 November 2021

# Results for the half year ended 30 September 2021

# Agenda – 25 November 2021



1. Overview
2. Key themes
3. Strategy update
4. Financial review
5. Operational review
6. Q&A

# Overview



## Strategic

- Enlarged PayPoint Group now delivering a broader range of innovative services and technology connecting millions of consumers with a universe of over 60,000 retailer partner and SME locations across multiple sectors
- Customer-focused response to the continued dislocation of the UK energy market with increased client engagement and providing uninterrupted service through our strong network
- Investment of £6.7m in the Snappy Group - enabling PayPoint Group and its retailer partners to respond to consumer demand for rapid, local home delivery
- Acquisition of RSM 2000 for £5.9m, with £1.0m deferred, completed on 12 April 2021
- Disposal of Romanian business completed on 8 April 2021, with proceeds of £48 million, and at a £30 million profit

## Financial

- Net revenue from continuing operations of £56.1m, up 20.9%, driven by a positive contribution from the acquisitions of Handepay/Merchant Rentals, i-movo and RSM 2000
- Profit before tax from continuing operations excluding exceptional items of £21.9 million, up 30.0%, reflecting the contribution from new acquisitions
- Net corporate debt of £36.5m, reduced by £31.7m since end of FY21 as Romania sale proceeds have been used to repay facilities
- Ordinary interim dividend of 17.0p per share, an increase of 2.4% vs the final dividend declared on 27 May 2021 of 16.6p per share, and an increase of 9.0% vs. the same period last year (H1 FY21: 15.6p)
- Overall expectations for the full year remain unchanged

## Operational

- **Shopping Division** – further retailer proposition enhancements launched in the half year: Snappy Shopper home delivery live in over 100 stores; Counter Cash now live in over 900 stores; MyStore+ retailer rewards app; FMCG marketing; Love2Shop e-gift cards; Handepay one-month contract trial; PayPoint Business Finance launched
- **E-Commerce Division** – new partnership launched with Randox; expanding services to existing clients with DHL In Store returns and Amazon returns; Send service expansion in progress; new capacity planning tool launched on Store Scan app
- **Payments & Banking Division**– continued diversification from cash to digital with 18 new client services now live, 12 coming from non-energy sectors and 15 taking digital payments solutions; new Payment Exception Service launched via i-movo for DWP; first major digital contract now signed with Studio Retail (direct debits)

# Ofgem update



- On 23 November 2021, Ofgem published a 'Notice of Decision to Accept Binding Commitments', regarding voluntary commitments proposed by PayPoint to Ofgem to address the concerns raised in Ofgem's Statement of Objections received on 29 September 2020
- Ofgem, the energy regulator, has now accepted those commitments as a resolution of its concerns
- PayPoint will now implement the commitments with all relevant stakeholders in a timetable agreed with Ofgem

# Key themes



| | Innovation as economy emerges from Covid-19 | Changes in consumer behaviour | Energy market dislocation | People & working practices |
|---|---|---|---|---|
| Impacts | Evolving SME business delivery challenges<br><br>Convenience sector being 'last man standing' for local service delivery whilst others retreat<br><br>Convenience retailers maintaining consumer relevance and converting new footfall into revenue | Continued shift from cash to card and digital<br><br>Evolving but still not clear or settled, inc. hybrid working<br><br>Rebalance of in store and online behaviour | Spike in wholesale energy prices and impact on unhedged suppliers<br><br>Exposure of most vulnerable customers and risk of fuel poverty into H2 | Adjustment to new working patterns<br><br>Higher levels of Covid-related sickness in key areas<br><br>Higher levels of staff turnover/increased salary pressures to recruit/retain<br><br>Establishing operations for first time in growth opportunity areas |
| Response | Handepay card offer innovation e.g. one month contracts<br><br>Expansion of YouLend to PayPoint retailers<br><br>Enhancement of retailer offer, inc. Snappy Shopper, Counter Cash<br><br>Greater levels of engagement with key trade associations | MultiPay product expansion to support client payment digitisation<br><br>Leverage expanded cards business of circa 30,000 SME/retailers<br><br>Launch of Counter Cash<br><br>Repositioning of Pick Up/Drop Off (PUDO), working with carriers | Regular energy supplier engagement and monitoring<br><br>Continued diversification to non-energy clients and digital payments<br><br>Stability of network and service to vulnerable customers | Successful return to office and launch of hybrid working, with ongoing manager support<br><br>Regular communication and support for teams<br><br>Review of key role salaries and streamlining of recruitment process<br><br>Continued focus on culture of strong project management and delivery discipline |

# Strategy update

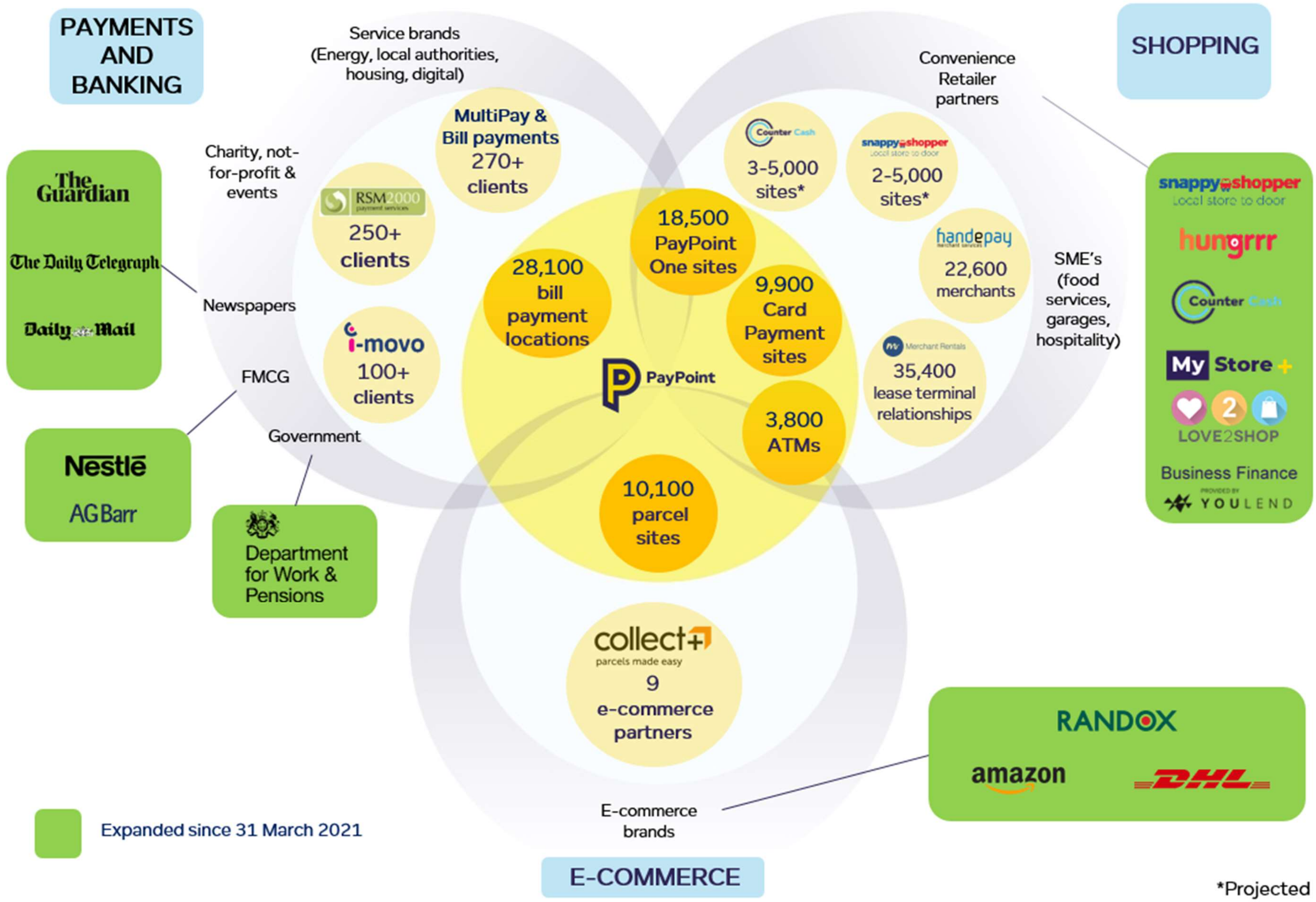
# Delivering on significant growth opportunities



| | | | |
|---|---|---|---|
| **PayPoint Group Overview** | We deliver innovative services and technology connecting millions of consumers with over 60,000 retailer partner and SME locations | | |
| **Divisions** | Shopping | E-commerce | Payments and Banking |
| **Macro Trends** | Shop local | E-commerce growth | Cash through to digital |
| **H1 Progress** | Further enhancements to retailer proposition delivered:<br>✓ Snappy Shopper local store to door delivery<br>✓ Counter Cash live<br>✓ Love2Shop e-gift cards<br>✓ MyStore+ retailer rewards<br>✓ FMCG marketing and data<br>✓ Cards – switcher and one-month contract trial<br>✓ PayPoint Business Finance<br>✓ Greater levels of engagement with key trade associations | New partnerships, service expansion and improvements live:<br>✓ New partnership launched with Randox<br>✓ Expanding services - DHL In Store returns and Amazon returns<br>✓ Send service expansion in progress<br>✓ Broadening value proposition into multiple retailers<br>✓ New capacity planning tool on Store Scan app | Digital payments expansion and major new DWP service launched:<br>✓ Payment Exception Service launched via i-movo for DWP<br>✓ 18 new client services now live, 12 coming from non-energy and 15 taking digital payments<br>✓ First major digital contract now signed with Studio Retail (direct debits)<br>✓ E-money targeted B2C marketing |

# Further expansion of PayPoint Group universe

Strong portfolio of brands within the PayPoint Group, supporting our clients and retailer partners with innovative solutions and product offerings, across different sizes of network




*Projected

# Financial review

# Financial highlights



| Half year ended 30 September | 2021 £m | 2020 £m | Change | |
|---|---|---|---|---|
| Revenue from continuing operations | 70.2 | 60.7 | 15.6% | |
| Net revenue from continuing operations[1] | 56.1 | 46.4 | 20.9% | See slide 11 |
| Operating margin before exceptional items[2] from continuing operations | 40.8% | 37.7% | 3.1ppts | |
| Profit before tax from continuing operations excluding exceptional items | 21.9 | 16.8 | 30.0% | See slide 12 |
| Exceptional items – i-movo deferred contingent consideration | 2.9 | - | - | |
| Profit before tax from discontinued operation | 30.0 | 3.8 | nm | |
| Profit before tax | 54.8 | 20.6 | 165.6% | |
| Diluted earnings per share | 72.4p | 23.8p | 204.2% | |
| Diluted earnings per share from continuing operations | 29.1p | 19.1p | 52.4% | |
| Ordinary dividend paid per share | 16.6p | 15.6p | 6.4% | See slide 16 |
| Ordinary reported dividend per share | 17.0p | 15.6p | 9.0% | |
| Cash generation[3] from continuing operations | 22.1 | 25.1 | (12.0%) | See slide 14 |
| Net corporate debt | (36.5) | (6.1) | nm | See slide 15 |

1. Net revenue is an alternative performance measure. Refer to note 1 to the interim report for a reconciliation to revenue
2. Operating margin before exceptional items % is an alternative performance measure and is calculated by dividing operating profit before exceptional items by net revenue
3. Cash generation is an alternative performance measure. Refer to the Financial review in the interim report – cash flow and liquidity for a reconciliation from profit before tax

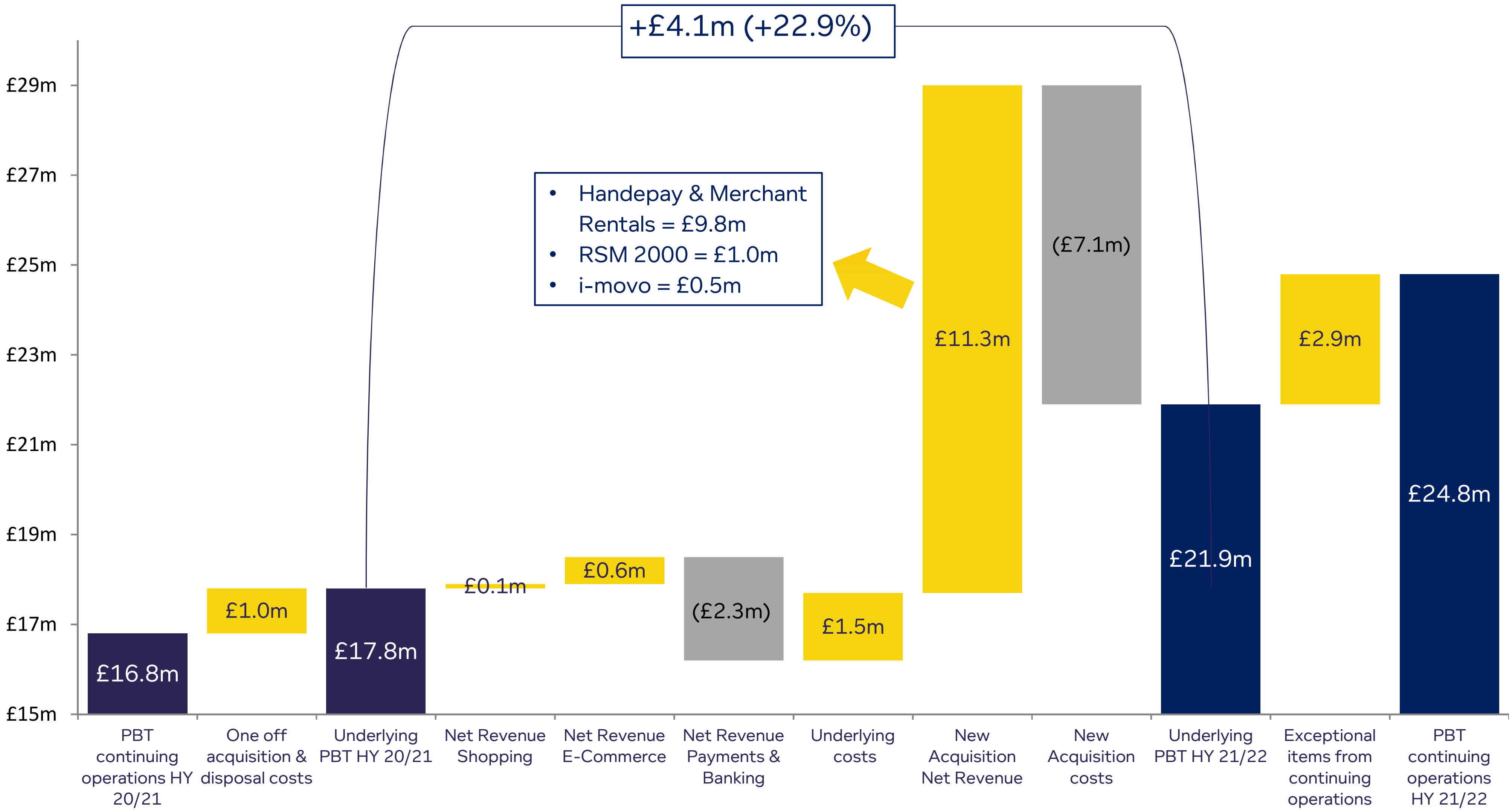
# Net revenue growth from continuing operations driven by new acquisitions

| Half year ended 30 September | 2021 £m | 2020 £m | Change £m | Change % |
|---|---|---|---|---|
| Shopping | 29.3 | 19.4 | 9.9 | 51.0% |
| - Service fees | 8.2 | 7.1 | 1.1 | 15.3% |
| - Card payments & terminal lease – Handepay/Merchant Rentals | 9.8 | - | 9.8 | - |
| - Card payments – PayPoint | 5.7 | 6.9 | (1.2) | (17.6%) |
| - ATMs | 4.9 | 5.0 | (0.1) | (0.4%) |
| - Other | 0.7 | 0.4 | 0.3 | 54.3% |
| E-Commerce | 2.1 | 1.5 | 0.6 | 39.0% |
| Payments & Banking | 24.7 | 25.5 | (0.8) | (3.1%) |
| - Cash bill payments | 12.4 | 13.7 | (1.3) | (9.5%) |
| - Cash top ups | 3.9 | 4.3 | (0.4) | (9.3%) |
| - Digital | 3.5 | 2.9 | 0.6 | 20.7% |
| - Cash through to digital – eMoney | 4.3 | 3.9 | 0.4 | 11.1% |
| - Other | 0.6 | 0.7 | (0.1) | (14.3%) |
| Total net revenue | 56.1 | 46.4 | 9.7 | 20.9% |

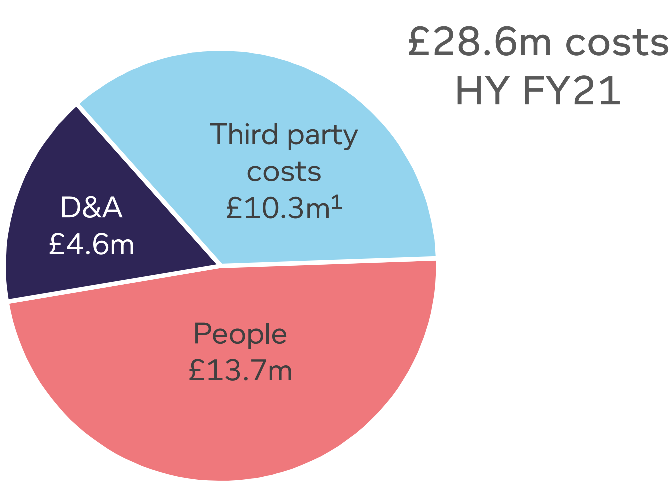
| Business division mix | H1 21/22 | FY 20/21 | H1 20/21 |
|---|---|---|---|
| Shopping | 52.40% | 41.40% | 42.00% |
| E-commerce | 3.60% | 3.70% | 3.20% |
| Payments & Banking | 44.00% | 54.90% | 54.80% |

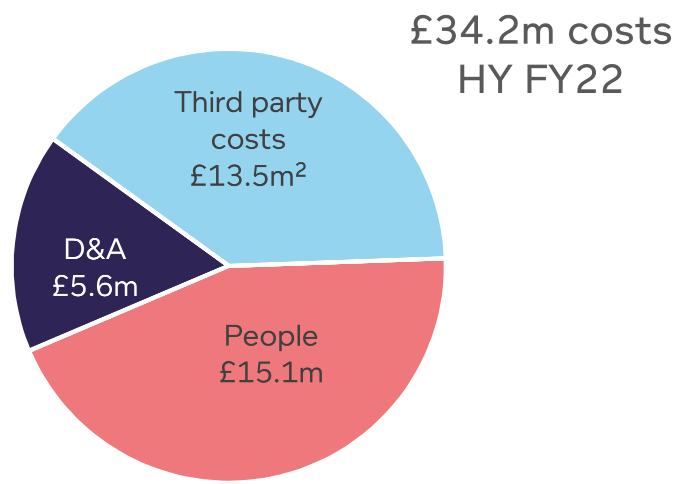
# New acquisitions driving growth in underlying PBT

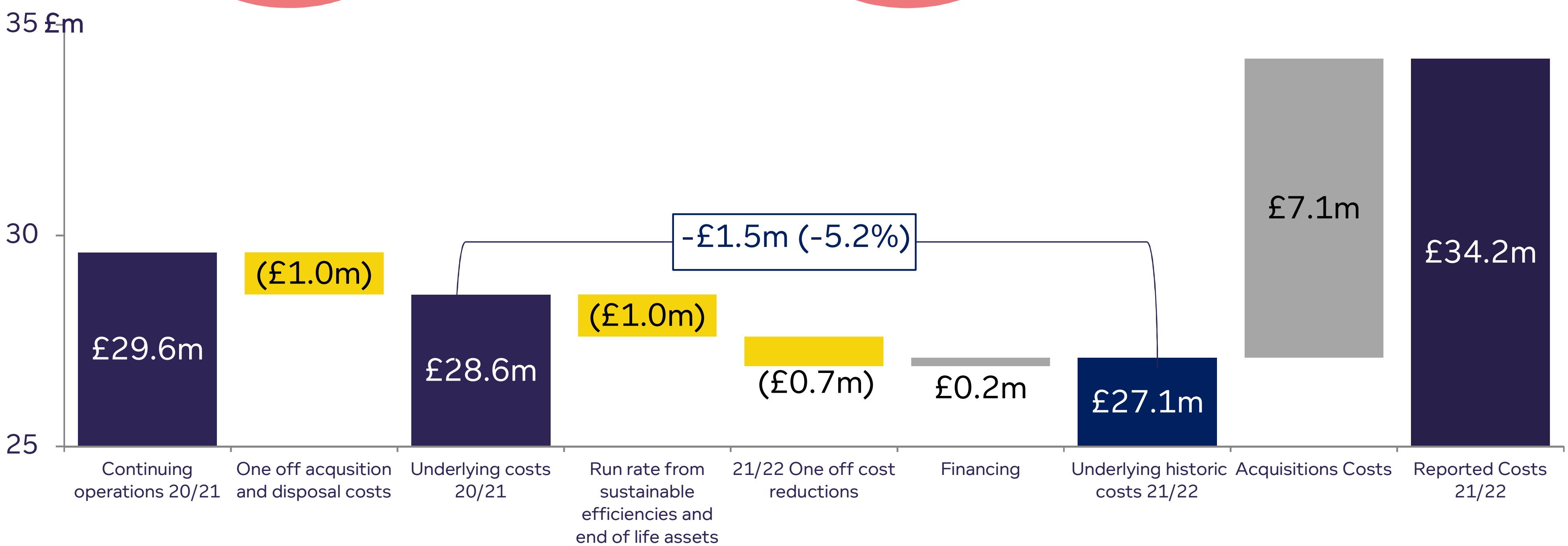




# Cost increases from new acquisitions – underlying cost tightly managed




1. Comprises £3.2 million other costs of revenue, administrative expenses £6.4 million and £0.7 million net financing costs.
2. Comprises £5.3 million other costs of revenue, administrative expenses £7.2 million and £1.0 million net financing costs.

The above presentation contains minor (£0.1m) roundings to ensure integrity of key numbers with those published in the half year statements.

# Cash generation and use



| Half year ended 30 September | 2021 (continuing operations) £m | 2020 (continuing operations) £m | 2021 Total £m | 2020 Total £m |
|---|---|---|---|---|
| **Profit before tax** | 24.8 | 16.8 | 54.8 | 20.6 |
| Profit from discontinued operation | - | - | (30.0) | - |
| Exceptional items | (2.9) | - | (2.9) | |
| Depreciation and amortisation | 5.6 | 4.6 | 5.6 | 4.9 |
| Share based payments / other | 0.7 | 0.6 | 0.7 | 0.6 |
| Working capital | (5.7) | 3.1 | (5.7) | 3.4 |
| **Cash generation** | 22.1 | 25.1 | 22.1 | 29.5 |
| Tax paid | (3.9) | (3.6) | (3.9) | (4.2) |
| Capital expenditure and other | (4.1) | (3.2) | (4.1) | (3.9) |
| Disposal of Romania business (net of cash) | 20.2 | - | 20.2 | - |
| Acquisitions of subsidiaries & associates net of cash acquired (RSM2000 + Snappy) | (11.2) | (5.1) | (11.2) | (5.1) |
| Movement in loans and borrowings | (42.9) | (49.0) | (42.9) | (49.0) |
| Dividends paid | (11.4) | (10.7) | (11.4) | (10.7) |
| Net change in PayPoint's cash | (31.2) | (46.5) | (31.2) | (43.4) |
| Clients' funds and retailers' deposits | (12.2) | 7.1 | (10.2) | 7.7 |
| **Net cash movement** | (43.4) | (39.4) | (41.4) | (35.7) |



The above presentation contains minor (£0.1m) roundings to ensure integrity of key numbers with those published in the half year statements.

# Strengthened balance sheet



| | Sept 2021 £m | Mar 2021 £m | Change £m | Sept 2020 £m |
|---|---|---|---|---|
| Goodwill | 57.1 | 51.6 | 5.5 | - |
| Other intangible assets | 41.1 | 41.7 | (0.6) | 22.3 |
| Net investment in finance lease receivables | 6.4 | 6.5 | (0.1) | - |
| Property, plant & equipment | 20.9 | 21.4 | (0.5) | 22.1 |
| Investment in associate - Snappy | 6.7 | - | 6.7 | - |
| Cash held as clients' funds and retailers' deposits | 16.1 | 28.4 | (12.3) | 27.2 |
| Net asset held for sale – Romania including corporate and client cash | - | 16.5 | (16.5) | 9.0 |
| | | | | |
| Cash from continuing operations | 7.2 | 10.5 | (3.3) | 14.9 |
| Loans and borrowings | (43.7) | (86.6) | 42.9 | (21.0) |
| Net debt | (36.5) | (76.1) | 39.6 | (6.1) |
| | | | | |
| Liability clients' funds and retailers' deposits | (16.1) | (28.4) | 12.3 | (27.2) |
| Working capital | 2.1 | (3.5) | 5.6 | (4.0) |
| Deferred, consideration liability | (3.9) | (5.7) | 1.8 | - |
| Ofgem liability | (12.5) | (12.5) | - | - |
| Lease liability (IFRS16) | (0.4) | (0.4) | - | - |
| Current and deferred tax | (0.7) | - | (0.7) | 1.7 |
| Net assets | 80.3 | 39.5 | 40.8 | 45.0 |

# Financing & Dividend



## Financing & future outflows

- Net debt decreased to £36.5m following the reduction in the revolving credit facility with the sale of Romania proceeds since the year end
- Financing facilities have good headroom
- Potential accordion facility of £30m (subject to approval by lender)
- Major outflows in the future period are £12.5m Ofgem contribution, £11.7m interim dividend and £10.4m for the 21/22 capex programme

| Funding | Available at 30 September 2021 | Utilised at 30 September 2021 | Utilised at 31 March 2021 | Utilised at 30 September 2020 |
|---|---|---|---|---|
| Revolving credit facility | £75.0m | £12.0m | £49.5m | £21.0m |
| 3 year term loan | £27.1m | £27.1m | £32.5m | - |
| Potential accordion | £30.0m | - | - | - |
| Block loan facility | £15.0m | £4.6m | £4.6m | - |
| **Total** | **£147.1m** | **£43.7m** | **£86.6m** | **£21.0m** |
| UK Corporate cash | | £7.2m | £10.5m | £14.9m |
| **Net corporate debt** | | **£36.5m** | **£76.1m** | **£6.1m** |

## Interim dividend declared

- Ordinary – 17.0p, an increase of 2.4% vs the final dividend declared on 27 May 2021 of 16.6p per share, and an increase of 9.0% vs. the same period last year (H1 FY21: 15.6p)

- Payable in equal instalments on 30 December 2021 and 7 March 2022

## Capital allocation policy

- Investment in the business through capital expenditure in innovation to drive future revenue streams and improve the resilience and efficiency of our operations
- Investment in opportunities such as the purchase of i-movo, Handepay/Merchant Rentals and RSM 2000 in November 2020, February 2021 and April 2021 respectively
- Progressive ordinary dividends targeting a cover ratio of 1.2 to 1.5 times earnings

# Operational review

# Enhancing our retailer proposition and Access to Cash



## Our offering

- Provision of digital solutions, technology and payment services for retailers to deliver vital community services

## H1 Progress

PayPoint One

- 18,516 PayPoint One sites achieved
- Home delivery and click and collect proposition launched in partnership with Snappy Shopper with over 100 stores now live and a strong onboarding pipeline
- Further progress on enhancing our retailer proposition – My Store+ rewards app live with circa 800 retailers signed up to date and further work planned to integrate into PayPoint One; Love2Shop e-gift cards launched in June 2021 offering richer retailer commission; FMCG marketing and data – strong early interest from brands/retail groups, early campaigns live for several FMCG brands
- Continued progress on retailer engagement, with regular quarterly meetings established with the leadership of key retail trade associations, a new partnership with the Scottish Grocer's Federation announced and a series of open letters sent to all retailer partners

Cash Banking (ATMs & Counter Cash)

- PayPoint Counter Cash service, offering cashback without purchase and balance enquiries over the counter, has now gone live in over 900 stores and will be rolling out to circa 5,000 stores by the end of the financial year

| | 30 Sept 21 | 30 Sept 20 |
|---|---|---|
| Sites | 18,516 | 16,900 |
| EPoS Base £10.25/week | 8,241 | 8,153 |
| EPoS Core £15.38 or £20.50/week | 9,084 | 7,411 |
| EPoS Pro £30.75/week | 1,191 | 1,336 |
| Average service fee | £16.80 | £15.70 |

snappy shopper
Local store to door

# Strong cards growth and proposition innovation



## H1 Progress

Cards performance

- PayPoint card payment transactions increased by 0.2% to 112.6 million and net revenue decreased by £1.2 million to £5.7 million, maintaining strong transaction volumes seen in H1 FY21 but at a lower average transaction value
- PayPoint card payment services were live in 9,900 sites at 30 September 2021
- Handepay card payment and terminal lease net revenue of £9.8 million (H1 FY21 – pre-acquisition: £7.2 million) and transaction volumes of 72.1 million in the half year (H1 FY21 – pre-acquisition: 57 million) as SMEs across key sectors have reopened as government restrictions have eased
- Handepay card payment services were live in 22,661 sites at 30 September 2021, an increase of 3,856 sites since 31 March 2021

Innovation

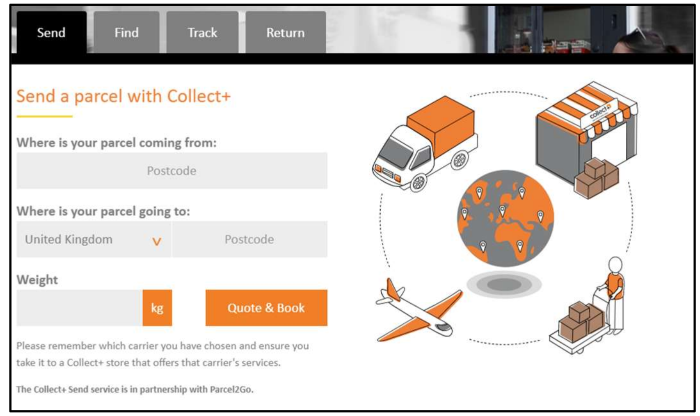
- Handepay – significant proposition enhancements launched, including one-month contracts for switchers
- Handepay - faster settlement solution enabled for all existing and new EVO-acquired customers and successful pilot and roll out completed of new Castles range of terminals
- Launched new PayPoint switching proposition trial in June 2021 to make it easier for customers to switch card payment services from competitors
- Launched PayPoint Business Finance, in partnership with YouLend, in July 2021 with positive early demand. Over £2 million lent to date across Handepay and PayPoint customer bases


# Continued parcels growth and experience innovation



## Our offering

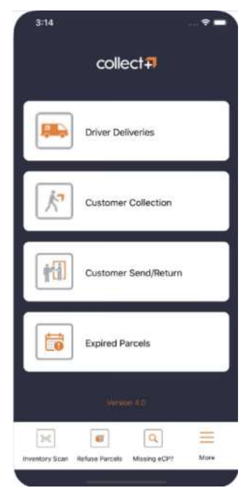
- Collect+ is our technology-based platform to deliver best-in-class customer journeys for e-commerce brands and their customers over the 'first and last mile', supported by a network of over 10,100 sites
- Leverage our proprietary software capability and expertise with continuous investment and innovation in the in-store experience
- Leading e-commerce partners: eBay, Amazon, DPD, Yodel, FedEx, DHL, Hubbox, Parcels2Go and Randox




## H1 Progress

- 10,186 live parcel sites as of 30 September 2021
- Good transaction growth increasing by 27.6% and net revenue grew by 38.2% year on year
- Investment in Zebra thermal printers yielding improved customer experience and transaction growth – 41% of returns (5.9m transactions) were printed in store, 55% using the new printer technology
- New partnership launched with Randox in several major shopping centres, supporting their Covid-19 testing service, and now being rolled out more widely
- Expanding service proposition to existing partners - DHL In Store Returns launched in May 2021 to 3,000 stores and Amazon Returns launched to 700 stores
- Working with carrier partners to promote greater awareness of PUDO with consumers
- Enhancement of Send proposition continuing to build, supported by marketing activity launched in August 2021
- New capacity planning tool launched on Store Scan app to help retailer partners manage peak demand and customer experience

RANDOX HEALTH



# Continued shift to digital payments and major new DWP service live



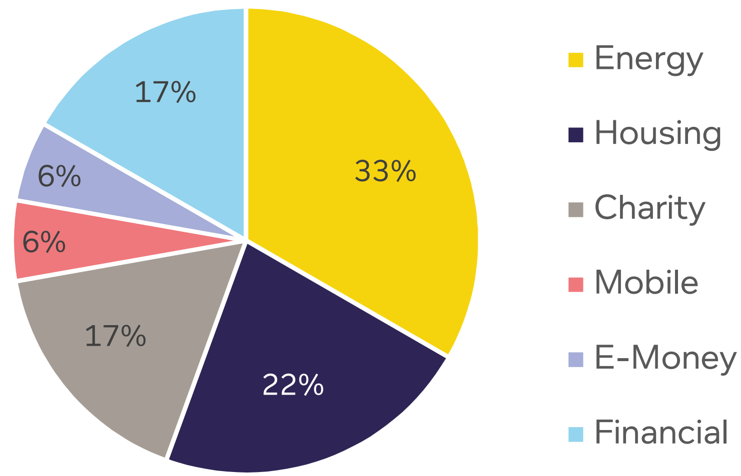
## Our offering

- Growing digital payment capability through our MultiPay platform
- Over-the-counter payments proposition maintaining vital access to cash in over 28,100 sites across the UK
- Largest network of its kind, coverage of 99.5% and 98.3% of urban (within one mile) and rural (within five miles) populations respectively

## H1 Progress

- Continued diversification from cash to digital - 18 new client services now live, with 12 coming from non-energy sectors and 15 taking digital payments solutions
- Major new Payment Exception Service launched via i-movo for Department for Work and Pensions digitising benefit payments to consumers and replacing the Post Office Card Account
- Acquisition of RSM 2000 completed on 12 April 2021 – positive contribution of £1m net revenue and charity sector action plan underway to expand services to new and existing clients
- Contract now signed to go live in 2022 with Studio Retail, the market leading digital value retailer, providing direct debit services
- MultiPay new product development continues apace: next generation PayByLink service launched; app balance enquiries and recurring payments now live; low balance notifications via text rolled out
- Three pilot schemes in progress with major newspaper publishers via i-movo to digitise consumer subscription services and home news delivery in local convenience stores
- Continued cash through to digital payments growth, now representing 7.7% of total Group net revenue at £4.3 million (H1 FY21: 8.3% of total Group net revenue at £3.9 million)

New client sector mix H1 FY22





Department for Work & Pensions

# Building a delivery focused organisation and culture



## H1 Progress

- Integration work now complete for acquisitions of Handepay/Merchant Rentals, RSM 2000 and i-movo
- Return to office/hybrid working plans launched successfully in September 2021
- Actively evolving our ongoing approach to labour markets and working practices as they recover post-Covid restrictions, including adjusting to new working patterns, higher levels of Covid-related sickness in key areas such as field sales, higher levels of staff turnover and increased salary pressures to recruit and retain talent
- Employee engagement survey completed in May, with overall engagement score improved to 72% (2019: 68%)
- Refreshed PayPoint Group purpose and values now embedded across business and further development underway of our ESG approach to deliver responsible and sustainable value for shareholders
- Key product development projects in-flight and on track to launch new capabilities and services from Q3 onwards, including MultiPay enhanced Direct Debit platform
- Investing to build further resiliency into our service delivery, with improvement plans for key services agreed and planned for implementation throughout FY22. Heritage systems assessment underway and review of IT strategy to complete in Q3 FY22


# Outlook



- Our first half has been a particularly busy period for the business, with early delivery success in our growth opportunities against the backdrop of continued uncertainty in a number of our markets
- Our core strategic priorities for the business remain unchanged and we have built on the transformative changes we delivered in the last financial year to expand our growth opportunities and leverage our strengthened capabilities
- Acquisition of RSM 2000 completed and strategic £6.7m investment made in Snappy Group, one of the UK's leading local home delivery and click and collect operators
- There remains uncertainty as to the outlook for the second half of the year - we expect the dislocation in energy markets and its impact on our energy clients to continue and the influence of parcel volumes during the important peak seasonal period, with the added uncertainty of customer behaviours post-pandemic, is an additional factor
- Mindful of this market background, our confidence in the outlook for the second half is underpinned by the actions and discipline we have continued to apply in managing our costs, combined with a tight operational focus on the key delivery areas and our energy to deliver on our new business opportunities
- Interim dividend of 17.0p per share declared, consistent with our policy, which reflects our long-term confidence in the business, the strength of our underlying cash flow and the enhanced growth prospects from the steps we have taken in the past 18 months
- Overall expectations for the full year remain unchanged

# Q&A