Company: **PayPoint**

Conference Title: **Analyst Call**

Moderator: **Louise Coen**

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Dominic Taylor: Good morning, everyone. Welcome to our Half-Year Results presentation. Also, welcome to anyone who is listening on our audio webcast. This is the first time we've done that for these results.

We're going to take you through our half-year performance. So, just by way of summary, we're going to be covering a financial review. I'm going to talk a little bit about why I think PayPoint is quite unique in its strategic positioning. And then we're going to go through the five business priorities that we've articulated in our annual reports from last year and update you on how we're doing.

So, by way of introduction, a lot of what we spoke about in the annual report I've just referred to refers to the reshaping of our business. And the reshaping of our business to being much more retail services-led rather than the heritage of bill payments that we have come from. And in that regard, we are making good progress particularly in product and network. We have continued the successful rollout of PayPoint One. We're now just under 7,000 sites across the country and we're on track to deliver the 8,000 by the year-end that we'd articulated before.

Equally, I'm delighted to say that we've now launched our EPoS Pro proposition, which is the final piece of our EPoS suite, if I can call it that way. I'll be saying a bit more about that later during the presentation. And we've accompanied that with an app. Parcels is growing well; double-digit growth. It's the right time of year for that, of course, with Christmas fast approaching. We just

passed Black Friday and Cyber Monday. And we've expanded our network to cope with that growth to now to over 7,000 sites.

We have a good momentum in MultiPay. Actually, transactions have doubled year-on-year. We're now servicing 17 clients with relatively new products. I'll be saying a bit more about that later too. And we've also completed the acquisition of Payzone in Romania, which will enhance the growth that we're already receiving there organically. And I'll be saying a bit more about that too.

Now, much of what we're trying to do is to improve the way in which we deliver service to our core customer group, the retailers, and we're investing there for – in the business. Rachel will be saying a little bit more about what and how. But the essence of the – of what we're doing is introduce a Salesforce CRM platform so we'd better understand who our retailers are.

We continue to invest in data centres. That's been going on now for a number of years and we expect that to complete within the next two years. And we're always trying to reduce or improve the – a variety of measures that indicate service to retailers. I've highlighted one here particularly which leads to the way we deploy PayPoint One, which is our new infrastructure where we've had a 19% improvement in getting the terminals in from the moment it's contracted to the moment the retailer gets it.

So, all of that has culminated in a financial performance which is good, with net revenue improvement of 5%. Operating cash flow has improvement by just over 5%, resulting in the payments of an ordinary dividend and special dividend as scheduled. So, I'll now hand over to Rachel, who'll take you through the financial results.

Rachel Kentleton: Thank you, Dominic. Good morning, everybody. Really pleased to be here and be able to take you through our results, which are in line with expectations.

So, you all have the details of the numbers in the RNS this morning; so, I will just focus on the key points today. The interim results reflect the sale of our PayByPhone business, strong growth in retail services and in Romania, and our continued investment in our core focus areas, namely PayPoint One, MultiPay and improving customer services.

As you can see, our statutory growth revenue reduced by 4.1% to £97.6 million and consisted of an increase in our core ongoing business revenue of £2.2 million and a reduction of £6.3 million relating to the disposal of PayByPhone on the 23rd December 2016. Similarly, administration costs reduced from £25.7 million to £23 million with an increase in the core ongoing business, offset by PayByPhone costs which are no longer incurred. And that's a point to note because following the reorganisation of our Collect+ joint arrangement with Yodel, there is no longer a share of joint venture profit or loss.

Overall, Profit Before Tax decreased from £24.7 million to £24.4 million. Tax in the year reduced by £0.4 million to £4.6 million and reflects an effective tax rate of 18.8%, which is lower than the 20.2% from last year. The reduction was primarily caused by the removal of losses incurred by PayByPhone in North America, for which there was no tax relief. Earnings per share increased slightly to 29.1 pence per share. And, as Dominic said, total interim dividends declared are 27.5 pence per share.

Turning to the next slide, I've set out the ongoing Retail networks business, which excludes from the 2016 comparative the PayByPhone business and Drop and Collect before our renegotiation with Yodel. This reflects the performance of our business on a like-for-like basis. The ongoing

retail business delivered growth revenue of £97.6 million, an improvement of £2.2 million, and net revenue of £56.5 million, an improvement of £2.7 million.

The good growth in net revenue of 5% was offset by continued investments in our products and services, which increased costs by £3.3 million. The cost increases weighted to the first half of the financial year and we expect minimal growth in the second half. Overall, this resulted in a reduction in operating profit for the ongoing retail business of £0.6 million to £24.4 million.

Moving on to slide eight, you can see the main drivers of our operating profits in the UK and Romanian businesses. There was a slight reduction in net revenue in UK bill payments and top-ups of £0.1 million, reflecting a higher margin per transaction which offset the 9.7% reduction in transaction volumes. We achieved strong net revenue growth in our key focus areas within the UK retail services business increasing by £2.1 million to £19 million and our Romanian business increased by £0.7 million to £5 million.

As indicated in our May results, depreciation and amortisation increased as expected by £1.3 million to £4.6 billion, reflecting the prior year investment in MultiPay and PayPoint One. In the second half of the year, we expect depreciation and amortisation to continue to increase, albeit at half the pace. To avoid repetition, I'll talk more about costs later in the presentation.

You can see here on slide nine an analysis of the key components of net revenues and the key movements in the first-half results for the ongoing retail business. It's worth noting that UK retail services net revenue grew its share of total net revenue from 31.5% in 2016 to around 34% in the current period. UK top-ups net revenue increased by £0.5 million despite transactions declining as a result of increased average top-up values, the increased eMoney volumes, which have a higher margin per transaction, and the benefit received in the first half only from last year's renegotiation of symbol commissions.

The UK bill payments net revenue decreased by £0.6 million primarily as a result of a reduction in UK energy transactions, which declined by 9% due to a number of factors including Big Six energy providers losing market share to challenger companies. This was offset as a net revenue level by improvement in our client mix, which Dominic will talk to you more about later. Pleasingly, we've continued to have strong growth in MultiPay, which doubled transactions to £6.7 million with 17 clients now live on the service.

In UK retail services, net revenue increased by £2.1 million or by 12.5%. It's worth to remind to you it's not full-year results. We flagged the net revenue would be impacted by the new commercial terms with Yodel. And in this interim period, these new terms have had a negative impact of £1.4 million on a like-for-like parcel volume basis. So, after adjusting for that change, the retail revenue would have grown by £3.5 million in the period.

Retail services volume increased across all major products, with parcels delivered increasing by 13.6% and total Collect+ sites numbering over 7,000 in advance of the Christmas peak season. Card payment transactions were up 5.7% to almost £48 million. And ATM transactions were up from the last period by 3.4% to £20.4 million. Included in the retail services results for this interim period is a £0.5 million benefit from the change in VAT treatment in card payments that we discussed with you at the Full Year in May.

Net revenue in Romania continued to grow strongly. Transactions grew by 6.6% to £38.8 million. And we increased our number of sites by 4.1% to over 11,500. Net revenue grew by £0.7 million to £5 million, of which £0.2 million arose on conversion to sterling as a result of the weak pound. The Payzone acquisition in Romania was approved on 2nd October 2017; and that will be included in our results from that date onwards. The purchase price for this acquisition consisted

of £1.4 million for the entire share capital and £0.8 million to replace a shareholder loan. You'll see these items reflected in our full-year accounts.

Turning now to the analysis of cost, this is similar to the presentation I provided for you at our Full-Year Results and gives a complete picture of our cost base. In total, the £32.1 million you see here shows the combination of admin costs of £23 million and other costs of revenue of £9.1 million. The cost increases reflect the structural changes and the reshaping of our business. These cost increases are weighted to the first half and we expect minimal growth in second half of the final – financial year.

The increases include £0.4 million costs related to improving our call centre and to the rollout of PayPoint One, which was launched last September and so, not in the prior year *comptes*. £0.5 million relates to our investment in CRM salesforce, which will allow us to make essential improvements to our service to retailers, upgrade our sales capability and to generate operational efficiencies. We also continue to enhance the robustness of our systems, which has increased spend on our data centres by £0.4 million. In addition, we've included here the £0.3 million VAT cost associated with the £0.5 million revenue benefit I talked about earlier.

Other cost increases include the impact of the apprentice levy and £0.1 million from foreign exchange on conversion of Romania's results. The £1.3 million of increase in depreciation is consistent with that – which was signalled in May and relates to the significant investment we've made in reshaping the business over the last couple of years, as we have replatformed our terminal, launched PayPoint One and EPoS Pro and continued to improve customer-facing systems.

Turning now to the balance sheet on slide 11, you can see here that other intangibles increased by £13.8 million from £11.9 million as at the 31st March 2017, reflecting the development of

PayPoint One, MultiPay and CRM. PPE increased by £1.7 million in the six months to £28.9 million, mainly reflecting the rollout of PayPoint One terminals which are in almost 6,200 sites as of 30th September, and investment in ATMs where we replaced over 500 legacy ATMs with broadband-connected machines which are faster, more reliable and improve customer experience.

Cash decreased in the six months by £25.5 million to £27.6 million, mainly as a result of paying out the final ordinary and additional dividend of £37.2 million for the year ended 31st March 2017. The negative £18.3 million working capital relates primarily to client funds we hold on the balance sheet and it's higher than at 31st December 2016 because we're holding a higher amount of client funds this year.

Turning to the cash flow statement on slide 12, Profit Before Tax of £24.4 million adjusted for the movement of non-cash items resulted operating cash generated at £29.5 million. Non-cash items of £5.1 million comprised £4.6 million of depreciation and £0.5 million per share-based payment costs. Operating cash of £29.5 million is an increase of £1.5 million when compared to the prior period and shows our strong cash generation, which underpins our ability to invest in the business for future growth whilst making good returns to shareholders.

The working capital outflow of £3 million mainly relates to prepayment for our CRM Salesforce implementation and data centre migrations. We expect full-year working capital to be broadly flat. CAPEX of £8.1 million represents the investment I've talked about before and will reduce in the second half, with full-year spend expected to be around £14 million. Corporation tax payments of £5 million are our payments on account, included in the net £3.1 million tax paid last year or tax refunds of £1.7 million for the 2014 and 2015 financial years.

Turning now to shareholder returns, as a reminder of our consistent track record on returns to shareholders by means of dividends, I've included in this slide just to remind you of what we've done in the past. We've declared an ordinary dividend of 15.3 pence per share, which is an increase of 2%, and the first instalment of this year's £25 million additional dividend, which represents 12.2 pence per share.

Finally, to conclude, at our Full Year Results, we presented this outlook slide. Our outlook for the year remains consistent with what we've said then, albeit with better than expected performance in cards offset by lower revenue growth and anticipation in ATMs. As you would expect, we will be reviewing our ATM estate in light of the recent Link announcement to reduce interchange rates by 20% over the next four years. Over the medium term though, we believe our low-cost operating model for ATMs can show that PayPoint is best-placed to succeed versus other ATM operators in a low-margin environment.

I'll now hand over to Dominic to take you through our business model and strategic progress.

Dominic Taylor: Thank you, Rachel. So, I'm now going to talk a little bit about why I think our – we have a unique positioning in this marketplace centred particularly around our business model. And as many of you all know, we have a growing portfolio of products and services that we offer to our retailers. Those highlighted in that line are those that generate footfall for the stores. But we have a number of services that also provide benefit directly to the retailers. And our mission is obviously to extend growth in each of those boxes and to add future boxes to that overall mix so that we enrich our retailer proposition and our revenue line.

Now, we have a platform that is evidently scalable. It's fundamentally low-cost of support for that revenue. And it's driven really by four pieces; first of all, the differentiators in resilient technology that we provide which starts as the technology we put into the shops, the transaction-processing

capability that we've now built over many years that processes all the volume, the whole back-office that supports all of that and house and purpose-built data centres in which we're still investing to support the growth of that, accompanied by things like PCI-compliance and security standards and all that kinds of stuff.

We have a retailer support module that consists of the call centre, of a field force that goes out on the streets and meets retailers, including online access by my PayPoint and that kind of stuff for retailers. We have very robust settlement systems. We settle circa £10 billion every year to our clients. Our settlement system is quite unique. It's a bit like a bow-tie in that we settle from 28,000 retailers through the knot of the tie to 380 clients both ways. That is somewhat unique, by way of a settlements capability.

And in particular, we have the ability to net settle. So, many of you all know that we net settle the ATM monies that the retailer puts in to the terminals in what we call self-fill. The retailer puts into the ATM themselves. And they settle that back to the retailer by netting it off that – the money that we're collecting from them. We're also now net-settling commission back to the retailer. And we will be settling card payments revenues back to the retailers sometime later this financial year. Quite unique.

And then, the final piece represents the way in which we aim to support the retailers and their technology. So, if a retailer has a problem with their terminal, something's not working, there's an error that appears on the device or whatever, we're able to reset that terminal remotely by the call centre anytime that the retailer calls so we can motivate bespoke servers to keep the terminal up.

In the unlikely event that the terminal needs to be swapped out, we probably have the most stringent retail commitment from any technology provided in the retail space, namely that we aim

to support – swap that terminal within four hours. And we achieve that 97% of the time right across the UK. So, that is our commitment to the service that we build.

And, of course, that's broadly fixed-cost type of model against the revenues that flow through it drives very healthy margins, strong cash generation, which allows us then to invest in innovation and provide attractive returns to shareholders. And why is all this relevant? Well, it's relevant because when you start to look at new things that we get into – like parcels, for example – we have a number of competitors in parcels that are building similar networks. They have to set all this middle box up from scratch. Of course, we've got it done already. We've got the network of our agents, we've got the technology in store, we have the settlement systems already in place. So, we can put incremental strings of business through the platform in a very cost-effective way.

Secondly, with ATMs, although it is obviously a different machine from the retail terminal that we have placed in the store, we manage the processing and the financial settlement, as you've already heard by net settlement, back to the retailer through systems that we already have and that already sit in the business. That provides us with a competitive advantage which is very powerful for us.

The key aspects of all of this, of course, though, is our Retail network. And this is a very similar slide to that we've showed in previous presentations. I think as everyone will appreciate, we operate the range – across the range of convenience stores, whether they're multiple retailers or independent retailers and whether – in the case of the independent retailers, whether they're genuinely independent or whether they're affiliated to a symbol group.

We've been a bit more structured this time around the way in which we describe the number of stores we have potential access to by referring to specific sectors you see on the left-hand side. And this is as is described by William Reed Grocery Index that is quite definitive on exactly which

stores fit into which sectors and so on. So, we operate in the Convenience sector with a capital C, CTNs, supermarkets, forecourts and specialist off licenses.

And the universe of those sectors combine to 66,000 sites, if you see in the bottom line. And we obviously have 28,500 within that overall mix. We provide, as you'll appreciate, the differences between the mults and the independents are stark. And all stores are very organised and have enormous buying power. They tend to invest a lot of money within – for their technology. And the independents, in contrast, are much more fragmented. They don't invest so much in technology. And that is why we have such an enormous opportunity to help those independent retailers who have affiliated with a symbol group or not with their technology, potentially with their buying power in the future to really drive forward.

And with our 28,500 sites, we are more than the supermarkets, the banks and the Post Office put together. We are the definitive network that allows convenient access to these sorts of services in the UK. And from the point of view of the proposition, referring back to the previous slide, our growing portfolio of products and services is able to leverage this network that we've created with a platform we use to support it to provide, I think, real competitive advantage. And that's what makes us quite unique.

Okay. So, I'm now going to walk through our five stated business priorities and just update you on how we're doing. Those are the five and that you'll be familiar with. So, just taking each in turn; the first of them is relating to the profitable growth on retail services. And as Rachel has already spoken about, we've had growth, broadly speaking, across the piece.

I particularly want to focus on PayPoint One here. And the first point to note on these numbers on the right-hand side relate to where we got to Monday just gone, on the 27th. So, we are just

under 7,000 sites with PayPoint One deployed split down, as you can see, across the various products. And therefore, we are well on track to achieve our 8,000 target by the year-end.

I'm delighted that we launched EPoS Pro, which we did on 1st November. Although I've said here as targeting primarily symbol retailers for all the obvious reasons because EPoS Pro fundamentally deals with the stock component and they are linked to the providers of stock, it's also very relevant to independent retailers that are buying in cash-and-carry stores, and it's also relevant to small multiples.

We are pricing it at £30 a week. We have been on sales drive since the launch into the base. And we have now over 100 contracted to date. And those – the rollout of those will commence in January. Why in January and not now? Because we are completing the final trials of EPoS Pro within the base and we're also busy integrating with a number of symbol groups, one of which we've previously cited as being Nisa, so that those links are in place to allow the rollout to commence from January. And also, as finally as part of this, we have launched a free app relevant to all the EPoS propositions, which we'll be a saying a little bit more about in a second.

I think all of you are fairly familiar with what the essence of PayPoint One is. It's intended to basically combine the traditional PayPoint services that drive footfall, payments, parcels and so on with an integrated payment solution encompassing all the modern forms of payment, whether it's contactless Android, Apple, etc. with whatever is or isn't on the retailer's counter in relation to a cash machine or an EPoS system, all into one simple Android, tablet-based device harnessing the latest technology.

So, moving on to EPoS, which obviously sits on this chassis of PayPoint One that I've just described. In essence, what we're trying to do is fundamentally four things. We're trying to help the retailer attract new customers. We're trying to help the retailer get better insights into the way

his business or her business works. We're trying to drive store efficiency for the retailer and, as a consequence, cost benefits. And in the context of the overall ambition, and I've used this phrase before, we're trying to help the retailer turn from being a shopkeeper – the analogy of which is they're tied behind the counter unable to look at the business holistically – to being a businessperson with a complete command of the sort of wider scope of their business.

So, in the context of EPoS, we have three basic propositions; Base, Core and Pro. Why have we got those? It really is intended to reflect the quite wide variety of retailers sit – in the convenience space. Some of them are very, very tech-savvy and will naturally gravitate to the right-hand side of those options and others which are not so tech-savvy and need some encouragement to adopt this new technology.

And so, within Base, fundamentally, it's akin to being a cash register for our retailers that are able to transact a basket of goods as a cash register will be able to do and facilitate the payment. Core is fundamentally about managing the front of the store, products, promotions and be able to track reporting on that. And then, Pro is fundamentally about managing the whole stock interface, ordering, what stock I've got left, how it's priced and so on.

And finally, we launched, as I mentioned just now, a mobile app. Just a couple of words on that. Essentially, the mobile app is there to allow retailers, wherever they may be at any point in time, to be able to see their sales in real-time, change prices and promotions instantly. They don't need to be in the store to do it. They can do it remotely, wherever they might be, and to control stock from anywhere; either buying goods, checking prices of stock, checking how much they've got, whatever that might be.

And we launched this on the 1st November. As I said, we launched it to the industry as a whole. We had all the retail journalists there. We also had the Chief Executive of the NFRN, National

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Federation of Retail Newsagents, there talking about the need for independent retailers to be able to adopt this technology. The whole thing was very, very well-received. We've heard a lot of good headlines in the retail press as a consequence. And I think it really points to the fact that we're on a good journey with this proposition.

What do the retailers think about it? Well, 75%, roughly speaking, of the hundreds that participated in our survey of PayPoint One retailers have basically said they find PayPoint One easy to use. That's gratifying. And it reflects the nature of this modern technology, tablet-based, easy to operate, very intuitive, which is now coming to the fore; in contrast to PC-based machines that they've typically – for those that they are used to EPoS systems typically – been used to. We also found that 66% of these retailers are prepared to recommend PayPoint to another. And this is – I'm particularly pleased about because these retailers are typically not early adopters of this type of technology and to have a high proportion of them wanting to recommend it is very strong.

What we're now going to do is show you a brief video sourced primarily from the launch, which just explains a little bit about – more about what the product is. Unfortunately, for those of you who are listening via the web link to this video, you'll not be able to see it. But it will be on our corporate website very shortly. So, without any further ado,

[Video playing, 00:29:12 to 00:31:03]

So, for those of you who have not yet seen EPoS Pro or PayPoint One or the mobile app, I'm very glad to say that Steve and Amit are at the back of the room with a working platform there. They're very happy to take you through after the presentation to show you a little bit how it works.

Okay. So, now, moving on to our second priority, namely growth in parcels. And the good news is we're obviously in a sector which is growing quickly. And as that sector grows, obviously

consumers become increasingly challenged as to how they manage their parcel delivery to the homes if they're out at work or if they're at work, how they deliver – how they're able to access those too.

And the growth is driven by, in terms of our piece of the business, by an increasing desire to the consumers to be able to return goods, an increasing desire to people to have their goods delivered to their local shop where they know it's going to be when they need it. And the sector is growing. And Collect+ within the sector is also growing strongly. You can see it on the top – on the chart on the top-right, we've got a compound growth rate of 20% over the last five years, which outstrips broadly the market growth as we start to establish our position within the sector.

And we are definitely the market leader in what I call the third party, as in not John Lewis delivering to John Lewis, but in the third-party pick-up points network. We service about 380 e-tailers who are either the pure-play retailers or hybrid retailers. We are by far the most trusted brand in this space. We scored 9.3 out of 10 in Trust Pilot. And we are way ahead of any of our competitors in that regard.

And we have large network, now over 7,000 sites, that processes volume. And this business is very attractive to our network. And actually, interestingly, we're now beginning to attract the interest of a number of multiples – McColl's being one, Tesco being another – within which we're in a trial with them.

And as you can see, the network is growing. And so, you have House of Fraser endorsed it so much not only as an e-tailer wanting to – as an online seller allowing their customers to be able to use a wider Collect+ network, but actually they've got Collect+ points – pick-up points in every single one of their stores. That's only just happened. We'll see how that goes. But both we and they are very excited about it.

And obviously critical within our evolution of this service has been, through the renegotiation we did with our joint venture partner last year, our ability to have more freedom. Now, what does that freedom mean? Now, in the previous world or in the previous agreement, we were tied to Yodel. As you can see from the bottom chart, Yodel only has 6% of the market.

We're now free to be able to talk to other carriers and engage with them on that basis. And the consequence – but the price of that freedom has been the price cut that Rachel referred to earlier on and which we have taken a little bit of pain this year in terms of our retail services growth. But the opportunity is encouraging. And to meet that opportunity with – established a team in the business they're now in. And we are working hard, talking to a number of different carriers.

The discussions are very positive from our point of view and very engaged. And I think we are – the reason I'm confident about this is because Collect+ is without doubt the leading brand in this space. It is the most trusted by consumers. We have the largest network, now over 7,000. We have a great business model to support it where – I referred to right back at the beginning, where it's able to leverage the technology and the processes, net settlement and everything that we have built for the rest of our business.

And, of course, through our point of view, this is not a business which is exposed to logistics costs that a carrier would typically have, which is one of the other benefits of the renegotiation. So, I hope that the next time we speak at the Full Year Results, we do update you on some of those agreements. But the discussions are taking place and they're positive.

The next area is optimising our profits in bill payments. And as Rachel has said, this is a more challenging area for us. This is, if you like, the traditional side of our business. And fundamentally, the dynamic is that the big – so-called Big Six are losing share – losing their share

of households as customers. And you can see the impacts of that both in terms of gas and electricity. And of course, the loss of that share is being driven a high number of new entrants. There are now 57 energy companies servicing the energy market. And obviously, that creates a great sense of competition which is, I think, quite interesting for the sector as a whole.

We've listed four things that either will fit into our camp that we're able to do something about to mitigate the impact and drive opportunities. I'm just going to go through those four things now. So, the first thing is that as this chart shows, that cash is still very relevant. There has sometimes been sense of thinking that they might – the move from so-called analogue meters to smart meters is somehow going to result in consumers completely changing the way that they pay.

And this chart is the volume of all the clients that have MultiPay platform. And what you can see is that cash-paying consumers that we've previously had are fundamentally still paying in cash. We're also seeing the growth of app-based payments, which is the grey – and supplements of our web-based payments too. So, cash is still very relevant to the business.

The second point is that as Rachel alluded to in her presentation, we can see that the volume is indeed going down. That's the black line on the chart. 9% volume in these results. But because we're able to negotiate better pricing with the new entrants than we're able to with the Big Six, we're able to offset that volume decline by a lower rate of revenue decline through pricing, which we're seeing very evidently in this result very much as we had anticipated.

The third point relates to our MultiPay proposition. And this is the product that we've been building since the sale of our mobile and online businesses that's now just under two years old. And volume on that is growing well. It's doubled during the period of 17 clients live, of which one is in the Big Six – Scottish and Southern.

And the momentum of getting smart meters deployed in consumers' homes, which is now about just under 15% penetrated across the UK base of 50 million metres, circa 25 million homes, combined with the fact that the Data Communications Company, DCC, is now about to go live on prepaid is live on post pay means that we're getting a lot more interest and engagement from the others of the Big Six energy companies in working with us, as the need to have a solution is getting ever closer.

And it wouldn't surprise you, given the recent announcement by Scottish and Southern, that Npower – that they're looking to merge with Npower to be one of the companies that we're talking to. But we're talking to others too with a level of engagement that we've not had until more recent time. So, I regard that to be encouraging.

The other interesting point is that we've developed for Npower – this is the penultimate sub-bullet I'm referring to now – an industry-wide service to deal with the way in which data is passed to the smart meter in the transaction and most particularly to deal in the unlikely event that the smart payment fails, which inevitably will happen from time to time.

And this is associated with something called the unique transaction reference number. In the normal payment, the unique transaction reference number is transported to the meter as the payment is made and verifies what the payment was and so on. But in the unlikely event that the payment isn't made, then we are able to pass the unique transaction reference number through to the consumer to allow them to key that in and still get their credit, which is clearly an essential part of the overall service proposition.

And we do that for Npower whether Npower – whether that transaction is initiated by the post office, by Payzone, by us or by an online service. And it's this sort of product that we're also now

talking about with the rest of Big Six as they realise how critical that failsafe method is for their service.

Of course, the MultiPay doesn't just service the energy industry. Last time, I referred to the fact that we are now increasingly to local authorities and housing associations. And I think I mentioned the likes of Reading, Derby, Bedford, Leicester as being recent wins. We've complemented those to name but some, but Barnet and Midlothian, East Ayrshire and Bedford. And that momentum continues as we are typically squeezing out the Post Office relationship with the local authority in favour of the PayPoint relationship.

So, that's the optimisation of profits in bill payments apart from a final slide, which relates to a – and so far as cash is regarded to be slightly old-school, it's actually really interesting that companies like Amazon that are definitely regarded to be part of the new world are coming to us in order to provide a cash-load facility for their app. So, within the Amazon app – you can see this here – is a barcode which allows consumers to load cash into their account to allow them to buy goods and services. They are exclusive to us in the UK. In America, it's called Amazon Cash. Here, it's called Amazon Top-Up.

And they're absolutely delighted with the volumes that are now being to create – we'll be able to create through that network and the way it's being promoted in-store. And I'm hopeful that that will attract other, as it were, modern propositions like Spotify. Apple have recently launched the concept of Apple Cash that – to get those sorts of services to use us in a similar way.

Okay. Now, moving on to Romania. Romania has made good progress over the last six months organically through the continued roll-out of bill payment. There was about a 90% share of that sector. Strong brand recognition, competing against the post offices. And we're now trialling some retail services like parcels. I don't expect that to be an enormous breakthrough over

Christmas, but we want to be an early – promote the early adoption of that and, equally, with card payment solutions.

As has been referred to, we acquired Payzone in Romania. Inherited about 10,000 sites. The business is broadly at breakeven. And we now have the opportunity to consolidate that business by rationalising the network, combining their sites with our sites, integrating systems and platforms, taking out some cost and providing a further platform for growth.

And then finally, our big focus, as I said at the beginning, has been to transform the business and our ability to be able to deliver, particularly around customer service. And we are making a big investment in CRM which we are halfway through implementing and including the improvement of retailer billing within that.

We – I'm very, very keen to get the people that are involved in building our products and designing our products much more close to the manufacturing of those products, in terms of IT. So, we're putting a lot of effort into that. So, we're organising ourselves around that basis. We're looking at various cost signage. I pulled out as an example – there's interesting signage. because we see 28,000 stores. We've got very good signage out there. Most people see specifically the wall hanging sign.

But we're doing an intelligent review, I think, of that signage recognising the fact that with mobile apps and web-based location services like Google, consumers are actually much more engaged with other – more modern ways of finding their way around to different places. We also surveyed our bill pay customers, they actually don't look for the signage. All they know is exactly where their PayPoint store is. They don't need other signs to tell them.

Collect+, on the other hand, definitely do need to have a sign. So, we've – we're doing an intelligent review of our signage to optimise the location-based services stuff, remove unnecessary signage, save some money and move forward. And that all crystallises, one way or another, into our CAPEX which, as Rachel has already said, that we expect to reduce over the next two years, in terms of investment.

Okay. So, by way of summary, it's been a good first six months and the reshaping of the business are on new track– by retail services. We are making good progress of PayPoint One and EPoS Pro; very excited about that. It's amazing that it was only a year ago that we launched that. Romania is growing strongly with double-digit growth and we expect that to continue, particularly with the acquisition of Payzone. We want to leverage our scalable and advanced platform to drive growth opportunities and also to provide great service. And the business continues to generate strong cash flows with a strong distribution to shareholders as a consequence.

So, that's the presentation. We'd be delighted to take any questions that anyone may have. Yes, Will?

Will Kirkness: Thanks. It's Will Kirkness from Jefferies. I've got three questions, please. First, on the CAPEX guidance fiscal 2019. Is that going to be in line with the run rate for the second half of 2018? Secondly, just on Romania. It looks like the second quarter growth rate in transaction was lower than the first. I just wonder if you could talk if there's anything there. Maybe you did the sort of Payzone acquisition was a bit of distraction.

Dominic Taylor: Yes.

Will Kirkness: And then lastly, just on some of the renegotiations I think you made with top-ups there. With the drop through of that into EBIT has been quite strong, would that have been mostly profit? So, the renegotiations of – in top-ups, so some of the commissions –

Dominic Taylor: Yes.

Will Kirkness: Yes.

Dominic Taylor: Yes. Do you want to take it?

Rachel Kentleton: I'll take one and you take two and three.

Dominic Taylor: Yes.

Rachel Kentleton: So, on the CAPEX point for 2019, clearly we're sort of pulling together our plan for next financial year. But I think you are right that the run rate should be more in line with H2 of this year than of H1 of this year.

Dominic Taylor: So, on the second question; Romania. Somewhat strange one. First, I know because it's been over the summer. So, actually, it inevitably would tend to be a drop-off in the summer for some of these things. Equally, somewhat strangely in Romania, not all the energy companies – although they intend to issue bills every month, they sometimes miss a month and issue two bills two months later or a consolidated bill. So, that sometimes happens. There's been a little bit of that in the summer. So, there's nothing fundamentally structural. I think it's just kind of the randomness of some of the behaviours that sometimes happens in Romania.

And then, the third question relating to mobile top-up. Essentially, what we've done there is, as you'll appreciate, the symbol retailers sit kind of as a middle tier between mobile operator and the retailer doing the work. And we renegotiated those commissions down on a basis that actually most of the work is done by the retailers themselves. So, we've – and there's a one-off there direct – effectively because we've – that's now happened. And it's as simple as that.

Okay. James, hi.

James Goodman: Thanks, first of all, [inaudible].

Dominic Taylor: Yeah.

James Goodman: James Goodman from Barclays. So, just a couple from me, please. Firstly, on the cash returns, I presume you're still committed to this overall five-year cash return programme?

Dominic Taylor: We are.

James Goodman: I'm just thinking about the balance sheet structure to accommodate that and maybe any additional M&A that you see out there. Are you prepared to go to a say net debt on your own funds measure to facilitate all of that? So, anything on that will be the first question. And then secondly – let's do that one first.

Dominic Taylor: Yes. So, if you answer the technical side and I'll do all the M&A bit?

Rachel Kentleton: Yeah. No. So, in this instance, you're right. When we basically restructured the business about 18 months ago, made this decision to renegotiate the Collect+ deal, exited

PayByPhone and the mobile and online business. We very much, therefore, took the decision that actually we didn't need the surplus funds we have in the business and could actually probably go to a more balance – normal balance sheet structure. So, actually, the decision to pay the additional dividend out through the five years which we're still committed to, we've very much made with the line. But actually, over the period, we would probably net debt to fund some of the ongoing CAPEX in the business.

So, broadly, how I think about it is I think the cash flow that's generated in the operations of the business is there very much to pay the tax man and to pay shareholders. And then, that we will sort of, over time, borrow some money to invest in the future to sort of the growth drivers of the business. But that should not be a little that's anything more than – in those peak. I can't even see it going more than one times EBITDA. Yeah.

Dominic Taylor: And I think on the M&A bit, certainly the structure that Rachel has just described has allowed us to do M&A or will allow us to do M&A if we can justify M&A that's quite a bit of to return; that and the dividend structure currently to shareholders. So, we have that option if something comes along. As I think you picked up during the presentation, we are fundamentally very focused on changing the direction of the business around retail services. And so, are there M&A opportunities in that area? Maybe. Sort of bolt-on type capability that would reinforce that change in direction.

We have also previously spoken about going to other countries. And we've obviously bought Payzone within this period. I had previously said, which I still stand by, that right now, that's a sort of second priority – extending geographically, still affecting return. But it still remains strategically relevant. So, we'll be looking at things that come in and we wouldn't discard them based on prioritisation. If they represent the right sorts of deals, we'd obviously look at them. But fundamentally, that's second priority at the moment on – in terms of international expansion.

James Goodman: Okay. Thank you. And the other one was separately on the Link announcement. I appreciated that they'd actually come out with an official proposal for the reduction in interchange. Can you talk a little bit to what that would do to your existing ATMs revenue or business and what you might do to mitigate that?

Dominic Taylor: Yes. So, this Link announcement is very, very new, as I think you'll appreciate. And it's generating quite a lot of discussion, not least with the Treasury Select Committee or the Parliamentary Select Committee associated with this. So – but they're talking about – definitely talking about the direction of travel over four years. And the question will be, I think ultimately, as to what opinion comes out and how resolved they are to go down that road and for how long.

I think from a sort of PayPoint perspective on this, obviously getting a lower income is not helpful. But it's not helpful for the whole industry. Because of the nature of our business model and the low-cost nature of it, I think we are better placed than many. We have a relatively small network of just over 4,000 sites. That's not our business. It's more like a product to us.

And I think as the commercial reality of competitors out there, as models get stressed by this, I think we're in a better position than most to be able to realise opportunity. We are still working after ourselves because obviously, this is all very stressed. But fundamentally, I'd say there's probably more opportunity relative to our competitors than there is a fundamental challenge. Does that make sense?

James Goodman: Yes.

Dominic Taylor: Yeah?

James Goodman: Thanks.

Dominic Taylor: Any other questions? You'd have to pass the mic down. Joe?

Joe Brent: Good morning. Joe Brent from Liberum. Three questions, if I may. Firstly – maybe do them in turn. Firstly, could you give us your understanding of how the click and collect market is developing and what the competitors are actually?

Dominic Taylor: Yes. So, by competitors, you mean competitors to us, I presume?

Joe Brent: Yeah.

Dominic Taylor: Yes. So, one of the aspects of our previous arrangement with Yodel in that we were tied together and the general success of pick-up and drop-off as a concept resulted in a number of the other carriers wanted to go and set up their own equivalents. And so, a company that many of your may be familiar with, Connect Group, have probably talked about their business as a public company. They've set a competitive network of about 3,500 sites called Pass My Parcel. My Hermes has got a competitive network.

And the issue for us within that has been that invariably, many of those sites that are being set up, though they're not located on the Collect+ site, they are often located in a PayPoint site. And that's one of the reasons we renegotiated our deal, to be able to offer services to those other carriers. I go back to my slide around the business model is that unlike others, we have a reason to exist anyway through the infrastructure that we created.

So, actually, my underlying point there, I think we have a much better opportunity to leverage the cost basics that are associated with the network and the back-office system than some of our

competitors may do. So, I think it gives us a competitive advantage. And we're in discussions with a number of these carriers. So, we're thinking of how that unfolds. We're now free to act on that in way that we weren't' before.

Joe Brent: And so, related to that, historically, the growth in Collect+ stores has been quite slow –

Dominic Taylor: Yes.

Joe Brent: – to pick up in the first half.

Dominic Taylor: Yes.

Joe Brent: Do you see that accelerating further from here?

Dominic Taylor: As ever – as we've always said about the roll-out of networks, whether it's related to bill payments or parcels, the fundamental answer is broadly the same, is that the network is there to service the volume. In the context of it growing again, I think that's a factor of two things. One is the volume has gone up, so we need to service that.

Secondly, we're back at being committed partners with Yodel on a slightly different basis. And that's freed us up to be able to grow the network and make all that happen. So, that's really why it's got to where it's got to. And I genuinely hope that in the long run – and we've previously expressed an aspiration years out to be of the same size as the post office one day.

But we can only do that to support the volume we contract. And the volume is going to come from Yodel – from Yodel rather – or it's going to come other carriers that we sign up. And as the volume grows, then so the network will too. So, our aspiration to be the prime place that Mr and

Mrs Average in the UK do their parcel thing still remains. And the site base will grow to active that ambition as volume grows.

Joe Brent: And finally from me, historically, you given a target of £10 million for MultiPay transactions, which clearly is a historic target. Are you going to set a new target?

Dominic Taylor: We're not going to set a new target, no. We're just going to watch the volume grow as it goes and work hard to drive that.

Joe Brent: Got it. Thanks.

Dominic Taylor: Sam?

Samuel Bland: It's Sam Bland from JP Morgan. I've actually got three as well. Maybe do them in turn. First one was EPoS Pro. Can you just maybe talk a little about how that works in terms of integration? I presume there needs to be some integration with the sort of head office of each symbol group.

Dominic Taylor: Correct.

Samuel Bland: So, that individual retailer is beneath that to integrate. So, do they happen kind of one by one? I think you said you've done Nisa now. Is there sort of a few of those that you're working through so brought them on board?

Dominic Taylor: Yeah. So, the fundamental point here is that we have a great piece of kit in the store that knows what the stock is in the store and the retail it needs to reorder. And so far as they have a relationship with a large supplier that has online systems to facilitate the order, which obviously

symbol operators do, but we want to integrate into those ordering platforms to allow the ordering and then the supply of products.

And you mentioned Nisa. Actually, Nisa is a relationship where we're able to be public about it because we've done the deal and we're allowed to go public about. But actually we're talking to with all the symbol groups and integrating into a variety of them. But I can't mention precisely who. But you know who they all are, so you can probably work that out.

What has been interesting about that whole thing is that it's not only symbol groups, because actually, we're beginning to find – getting interest from a number of wholesalers that we're beginning to talk to that may not have a fascia relationship with the store but nonetheless have stock with supply systems that want to be integrated with as well. So, I think this integration challenge or the connectivity challenge doesn't just start and stop at symbols. It would, over time, extend into other players in this space.

Samuel Bland: Okay. Thank you very much. Second was if we look at the business you acquired in Romania, it's a big network. It's like 10,000 stores. But quite low – probably quite low net revenue per store versus your own network in Romania. Is there any structural reason why that should be the case or over time, as you integrate the business and maybe add on more products; could you get the net revenue per store up to something more similar to where your business there stands?

Dominic Taylor: Well, I think – a couple of answers there. First of all, because of the way we operate and the way we work, we have over many years developed a richer proposition for merchants that Payzone has had; which is why a PayPoint store, whether here or Romania, tends to be more – drives more value to the retailer than the Payzone proposition. And that slightly defines the difference, if you like, in the proposition, the profitability and all the rest of it.

Now, obviously, they share a number of clients that we share and they have one or two clients that we don't have as well. And the idea would be to integrate the revenues, consolidate the network. I'm not suggesting that our circa 11,000 sites in Romania plus 10,000 Payzone will be the end network. We're working through what the end network would be to provide consumers with the right proposition. And then, we'll consolidate costs. And the acquisition argument is really based around that consolidation rather than buying the Payzone proposition.

Samuel Bland: Okay. And then, a final one from me. In the H1 year-on-year, I think the costs – cost base went up £3.3 million. I think you said that's not going to – probably it will increase by less in the second half. Looking out sort of over – sort of medium term, is there any reason to think that we should see a sort of continual year-on-year increase in cost base or actually should probably total costs, they're flattish?

Dominic Taylor: Yes.

Rachel Kentleton: They should stay flattish because beyond the normal sort of staff inflation piece actually, we'll start to bring CAPEX much more back in line with depreciation over the next couple of years, as you would expect. And we should start to get efficiencies out of things like the CRM investment when that finally kind of lands and gets installed, yeah.

Samuel Bland: Okay. Thank you.

Dominic Taylor: Any other questions? No. Great. Well, thank you very, very much for coming. I hope you've enjoyed the presentation. If any of you, again, have not seen EPoS Pro or the app, then please feel free to engage with Amit and Steve at the back. And thank you very much.

[END OF TRANSCRIPT]