

PayPoint Plc
Trading update for the three months ended 31 December 2021¹

20 January 2022

A positive quarter across the PayPoint Group in line with expectations

Nick Wiles, Chief Executive of PayPoint Plc, said:

“Our third quarter has been an important period for the business as we build on the positive trading performance delivered in the first half. We have continued to perform well over the quarter despite the impact of exceptionally mild weather on our energy business, and with a strong performance from our e-commerce business through the key Christmas peak trading period, in terms of both parcel volumes and customer satisfaction. Our cost management and capital discipline over the quarter has also remained strong.

“Our focus on operations and strategic priorities has been relentless: the home delivery partnership with Snappy Shopper continues to grow with more than 190 stores now live and over £1m of store sales since launch in July 2021; and our new Counter Cash solution is now live in over 1,700 sites, providing vital access to cash in communities across the UK.

“We also secured our first major housing client with Optivo, a leading UK housing association, for our complete digital payments solution, and we continue to grow the new Payment Exception Service for the Department for Work and Pensions as consumers migrate away from Post Office Card Accounts. Furthermore, we diversified our e-commerce offering further with an expansion of our partnership with Randox, providing vital Covid-19 testing services throughout our Collect+ and multiple retailer network.

“We continue to demonstrate agility and drive to respond quickly to changing consumer demands and new opportunities in our markets. As a result, we remain well-placed to support our partners in response to the wider trends that have accelerated through the pandemic, including the continued shift from cash to digital payments, the growing demand for online shopping fulfilment and the increase in shopping local. The Board’s expectations for the full year remain unchanged.”

HIGHLIGHTS

Good performance across the Group building on positive first half

PayPoint Group

- Group net revenue from continuing operations increased by 21.3% to £29.6 million (Q3 FY21: £24.4 million)
- Business division net revenue contribution mix for the quarter was 49.0% from Shopping, 5.2% from E-commerce and 45.8% from Payments & Banking, demonstrating the continued shift away from our legacy markets

Shopping

- Shopping divisional net revenue increased by 58.5% to £14.5 million, driven by a positive contribution from the Handepay/Merchant Rentals card payments businesses of £4.8 million and by the continued growth of our PayPoint One estate
- UK retail services net revenue increased by 5.1% to £7.0 million, with increases in service fees from PayPoint One
- Card payment volumes remained robust on the existing book. Handepay business grew to 37.6 million transactions in the quarter (Q3 FY21: 28.3 million), together with the PayPoint card business increasing by 4.4% year on year to 53.2 million transactions, building on the strong volumes seen in Q3 FY21. This is in spite of weakness in the food and beverage sector seen following Covid-19 government announcements in November 2021
- UK retail network increased to 28,174 sites (31 March 2021: 28,067)

E-commerce

- E-commerce divisional net revenue increased by 36.6% to £1.5 million (Q3 FY21: £1.1 million), through our e-commerce technology platform, Collect+, driven by a strong performance through the key Christmas peak trading period which saw year-on-year volume growth of 11.3% over November and December 2021

Payments & Banking

- Payments & Banking divisional net revenue decreased by 3.9% to £13.6 million, driven by a continued reduction in cash bill payments and top ups but offset by continued growth in digital payments
- Cash through to digital payments transactions decreased by 17.8% and net revenue by 16.9%. This reflects our eMoney schemes delivering lower comparative volumes following the strong performance seen during Covid-19
- Cash Out net revenue increased by 36.4% versus strong volumes in Q3 FY21, driven by demand from local authorities to disperse Covid-19 support schemes. Additionally, there was a £0.5 million early net revenue contribution from the DWP Payment Exception Service
- Cash payment net revenue decreased by 10.5%, primarily due to the exceptionally mild weather; the continued shift in consumer behaviour to making fewer, larger bill payments; and a continued decline in consumers topping up mobile phones in store

¹ PayPoint’s auditors have not been requested to review the performance

BUSINESS DIVISION NET REVENUE AND MIX

Net revenue from continuing operations by business division (£m)	Q3 FY22	FY21	Q3 FY21
Shopping	14.5	40.2	9.2
E-commerce	1.5	3.6	1.1
Payments & Banking	13.6	53.3	14.1
PayPoint Group Total	29.6	97.1	24.4
Business division mix	Q3 FY22	FY21	Q3 FY21
Shopping	49.0%	41.4%	37.7%
E-commerce	5.2%	3.7%	4.5%
Payments & Banking	45.8%	54.9%	57.8%

PROGRESS AGAINST OUR STRATEGIC PRIORITIES

PRIORITY 1: EMBED PAYPOINT GROUP AT THE HEART OF SME AND CONVENIENCE RETAIL BUSINESSES

SHOPPING BUSINESS DIVISION – Q3 FY22 net revenue £14.5m (Q3 FY21: £9.2m)

Retail services

- PayPoint One sites increased by 856 to 18,661 since 31 March 2021
- Service fee net revenue increased by 12.6% to £4.2 million (Q3 FY21: £3.7 million) driven by the continued growth of our PayPoint One estate
- The PayPoint One average weekly service fee per site increased by £0.60 to £16.87 since 31 March 2021, benefiting from an increase in Core sites which are charged at a higher rate and the annual RPI increase
- Home delivery partnership with Snappy Shopper continues to grow, enabling local store to door delivery and click-and-collect for our retailer partners. Over 190 stores are now live, with over £1m store sales since launch in July 2021 and a strong pipeline in progress underlining retailer demand
- The PayPoint Counter Cash service, offering cashback without purchase and balance enquiries over the counter, has now gone live in over 1,700 stores. The launch was widely covered in national and regional media, supported by key members of the Cash Action Group, LINK and John Glen MP, Economic Secretary to the Treasury
- ATM services were live in 3,774 sites at 31 December 2021, an increase of 148 sites since 31 March 2021. A continued pandemic-driven reduction in cash usage led to net revenue decreasing by 5.3% to £2.4 million (Q3 FY21: £2.5 million)

Card payments

- PayPoint card payment transactions increased by 4.4% to 53.2 million and net revenue increased by £0.2 million to £2.7 million (Q3 FY21: £2.5 million)
- PayPoint card payment services were live in 9,721 sites at 31 December 2021, a decrease of 209 sites since 31 March 2021
- Handepay card payment and Merchant Rentals terminal lease reported net revenue of £4.8 million (Q3 FY21 – pre-acquisition: £4.1 million) and transaction volumes of 37.6 million in the quarter (Q3 FY21 – pre-acquisition: 28.3 million). This builds on the strong volumes seen in Q3 FY21 driven by increased consumer usage, and in spite of weakness in the food and beverage sector seen following Covid-19 government announcements in November 2021
- Handepay card payment services were live in 22,589 revenue-generating sites at 31 December 2021, an increase of 4,295 revenue-generating sites since 31 March 2021 as sectors have reopened and supported by the introduction of one-month rolling contracts
- Handepay – significant enhancement to proposition launched with one-month rolling contracts rolled out for customers switching from other providers in October 2021, with positive early demand and customer feedback
- Merchant Rentals – new contract signed with Service Logistics, expanding our access to new ISO partnerships, and new introducer agreement signed with Nxgen, a payments ISO
- Continued progress in leveraging opportunities and synergies across the Group - PayPoint Business Finance, in partnership with YouLend, has continued to perform well with circa £5 million lent across the PayPoint and Handepay customer bases since April 2021. We are also developing a new opportunity with Hungrrr, a food ordering app owned by the Snappy Group, to improve our offering to SMEs operating in the hospitality and food service sectors

- The average transaction value for the quarter in PayPoint sites decreased to £11.38 (Q3 FY21: £12.32), driven by lower basket values than in the previous year. The average transaction value for Handepay sites in the quarter was £30.02, driven by SME sectors reopening versus the Covid-19 impacted Q3 FY21

PRIORITY 2: BECOME THE DEFINITIVE TECHNOLOGY-BASED E-COMMERCE DELIVERY PLATFORM FOR FIRST AND LAST MILE CUSTOMER JOURNEYS

E-COMMERCE BUSINESS DIVISION – Q3 FY22 net revenue £1.5m (Q3 FY21: £1.1m)

- Parcel services were live in 10,177 sites at 31 December 2021, a decrease of 332 sites since 31 March 2021
- Parcels transactions increased by 13.2% and net revenue grew by 36.6% year on year to £1.5 million (Q3 FY21: £1.1 million) driven by a strong performance through the key Christmas peak trading period which saw year on year volume growth of 11.3% over November and December 2021
- Investment in Zebra thermal printers continues to yield improved customer experience and transaction growth – 46.9% of returns (1.38 million transactions) were printed in store during the quarter with 68.3% of those transactions using the new printer technology, highlighting growing popularity and consumer demand for the service
- Radox partnership expanded in January 2022 enabling people to order a Radox test online for click-and-collect at a local store within the Collect+ network. This is initially available in over 5,000 locations, growing to over 10,000 locations nationwide. Additionally, consumers will soon have the ability to walk into a local store and immediately pick up a test in over 2,750 locations, with no need to order online. This is in partnership with major convenience retailers including McColl's, Scotmid Co-operative and Spar in the North West and Scotland
- Expanding service proposition to existing partners progressing well, with Amazon Returns launched to 700 stores ahead of peak trading

PRIORITY 3: SUSTAIN LEADERSHIP IN 'PAY-AS-YOU-GO' AND GROW DIGITAL BILL PAYMENTS

PAYMENTS & BANKING BUSINESS DIVISION – Q3 FY22 net revenue £13.6m (Q3 FY21: £14.1m)

Digital

- Continued diversification from cash to digital - 7 new clients now live, with 6 coming from non-energy sectors and 4 taking digital payments solutions
- Contract signed with Optivo, one of the UK's largest housing associations, providing a range of digital payments channels to go live at the beginning of the next financial year
- Commercial partnership agreed with Optus Homes, a leading app for tenants to manage their home rental account, positioning PayPoint as the preferred payment provider and strengthening our MultiPay proposition for housing clients
- Continued transaction growth in Payment Exception Service via i-movo for Department for Work and Pensions with 353,000 transactions processed in the quarter and an early net revenue contribution of £0.5 million, digitising benefit payments to consumers and replacing the Post Office Card Account, which is coming to an end
- MultiPay net revenue decreased by 15.4%, driven by the removal of Utilita but partially offset by growth in other clients taking digital payments solutions
- Cash Out net revenue increased by 36.4% versus strong volumes in Q3 FY21 driven by demand from local authorities to disperse Covid-19 support schemes
- MultiPay new product development continues apace: next generation PayByLink service launched, offering more payment and message options; app balance enquiries and recurring payments now live; low balance notifications via text rolled out; PayByLink and card payments integration now complete with Northgate, one of the leading housing management platforms
- Enhanced Direct Debit platform in development for launch in early 2022, improving our MultiPay digital payments platform and built around giving clients more flexibility in Direct Debit and customer payments management

Cash through to digital

- eMoney transactions decreased by 17.8% with a 16.9% decrease in net revenue compared to the strong volumes experienced in Q3 FY21
- Targeted B2C in-store marketing campaign for the cash through to digital category launched in October 2021 to 1,000 stores, with positive early results, helping to drive further awareness, featuring brands such as Amazon, Xbox and Playstation

Cash

- Bill payments net revenue decreased by 10.9% and transactions decreased by 7.1%, primarily due to the exceptionally mild weather, margin erosion, and the continued shift in consumer behaviour to digital channels and for making fewer, larger payments
- UK top-ups net revenue decreased by 9.3%. Top-up transactions reduced by 13.3% due to further declines in the prepaid mobile sector and changes in consumer behaviour driven by Covid-19

PRIORITY 4: BUILDING A DELIVERY FOCUSED ORGANISATION AND CULTURE

PAYPOINT GROUP

- Anna Holness joined the Executive Board as Sales Director in January 2022, leading the retail services and card services sales teams across PayPoint and Handepay. She was formerly VP, Sales, Merchant International Solutions at Worldpay, leading a team of over 120 payment sales professionals focused on winning business across the SME, Mid-Market and Corporate segments within EMEA
- Return to office/hybrid working plans launched successfully in September 2021, with positive feedback from employee hybrid working survey
- Investing to build further resiliency into our service delivery, with improvement plans for key services agreed and planned for implementation throughout FY22.
- Integration of service support and product development teams underway, to improve quality of response to service issues and speed of product development

OFGEM

- 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 is now implementing the commitments with all relevant stakeholders in a timetable agreed with Ofgem

BALANCE SHEET AS AT 31 DECEMBER 2021

The Group had net corporate debt of £47.5 million (31 March 2021: £68.2 million) reflecting cash balances of £9.5 million (31 March 2021: £18.4 million), less loans and borrowings of £57.0 million (31 March 2021: £86.6 million).

DIVIDEND

The Board previously declared an increased interim dividend of 17.0 pence per share (September 2020: 15.6 pence) payable in equal instalments of 8.5 pence per share on 30 December 2021 (to shareholders on the register on 3 December 2021) and 7 March 2022 (to shareholders on the register on 4 February 2022). This is an increase of 2.4% compared to the final dividend declared on 27 May 2021 of 16.6 pence per share, and an increase of 9.0% compared to the same period last year (September 2020: 15.6 pence).

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ABOUT PAYPOINT GROUP

For tens of thousands of businesses and millions of consumers, we deliver innovative technology and services that make life a little easier.

The PayPoint Group serves a diverse range of organisations, from SME and convenience retailer partners, to local authorities, multinational service providers and e-commerce brands. Our products are split across three core business divisions:

- In Shopping, we enhance retailer propositions and customer experiences through EPoS services via PayPoint One, card payment technology, Counter Cash, ATMs and home delivery technology partnerships in over 60,000 SME and retailer partner locations across multiple sectors. Our retail network of over 28,000 convenience stores is larger than all the banks, supermarkets and Post Offices put together
- In E-commerce, we deliver best-in-class customer journeys through Collect+, a tech-based delivery solution that allows parcels to be sent, picked up and dropped off at thousands of local stores
- In Payments and Banking, we help companies and their customers make and receive payments quickly and conveniently. This includes our digital payments platform, MultiPay, an eMoney offering that enables cash through to digital transactions and cash solutions providing vital consumer access across our extensive retail network

Together, these solutions enable the PayPoint Group to create long-term value for all stakeholders, including customers, communities and the world we live in.