Money in Motion

+61 (07) 3557 1100

Level 12
333 Ann Street
Brisbane QLD 4000

EML Payments Limited
ACN 104 757 904

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Investor Presentation - Transcript

EML Payments Limited (ASX: EML) is pleased provide investors with the attached transcript of a briefing to shareholders and the investment community held on Wednesday 18 August 2021 following the release of the FY21 Annual Results.

Investors can also access a recording of the webcast via the following link: https://www.openbriefing.com/OB/4260.aspx

About EML Payments Limited

EML provides an innovative payment solutions platform, helping businesses all over the world create awesome customer experiences. Wherever money is in motion, our agile technology can power the payment process, so money can be moved quickly, conveniently and securely. We offer market-leading programme management and highly skilled payments expertise to create customisable feature-rich solutions for businesses, brands and their customers.

Come and explore the many opportunities our platform has to offer by visiting us at: EMLPayments.com

This ASX announcement has been authorised for release by the Company Secretary.

For further information, please contact:

Sonya Tissera-Isaacs
Company Secretary
EML Payments Limited
M: 0400 297 242
E: stisaacs@emlpayments.com.au

Company: EML Payments Ltd
Title: EML FY21 Results Investor Presentation
Date: 18 August 2021
Time: 9:00 AEST

Start of Transcript

Operator: Thank you for standing by and welcome to the EML Payments Ltd Fiscal Year 2021 Results Investor Presentation. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Mr Tom Cregan, Managing Director and CEO. Please go ahead.

Tom Cregan: Thank you very much. Good morning and welcome to the EML Payments Ltd results call for the 2021 financial year. I'm Tom Cregan, Managing Director of EML Payments and I'm joined today by Rob Shore, our Chief Financial Officer. On today's call we will reverse the order that we've historically used and have Rob lead off with our financial results and FY22 guidance before I go through a business update and then we can open it up for questions.

The 2020 financial year, going back one year, was a strong year for us before the impacts of COVID in the fourth quarter took the wind out of our sales in terms of our statutory results, albeit we still grew EBITDA in excess of 30%. The 2021 financial year unfortunately has some parallels to that. Despite continuing impacts from COVID-19 in different parts of our business, particularly in the gift and incentives segment, with most shopping malls closed in Europe and North America from really the middle of December onwards until mid-April, then into late May and into June in some cases.

On an underlying basis the Company met or exceeded the guidance that we had in market including GDV of $19.7 billion, an increase of 42% on the prior year and at the top end of our guidance range, a beat on revenue of $194.2 million versus a guidance range of $180 million to $190 million. Underlying EBITDA of $53.5 million at the top of the guidance range of $50 million to $54 million and underlying operating cash flows of $46.7 million or a conversion rate of 87%, also in the top half of our guidance range.

In an operational sense, we had a number of highlights which we'll discuss in more detail later in the deck and in a strategic sense, we launched Project Accelerator and we'll talk about those outcomes later in the deck as well. The shareholders would know, on 13 May, 14 May we received notification that the Central Bank of Ireland in what they referred to as a Minded to letter, in relation to concerns they had with respect to regulatory and compliance practices.

As a leader in this industry, we take our regulatory and compliance obligations extremely seriously and indeed we believe that it's our commitment and our investment in that area that has kind of established the foundation for growth that we've enjoyed in the last nine years. Our commitment to best practice in that area is unwavering. That's what we've communicated to the Central Bank and we're actively engaged with the Central Bank on a remediation program which we are looking to substantially complete by the end of the 2021 calendar year, with remaining items to be completed by the end of March 2021.

It's important to note that in the ensuing audit of our European business, there's been no evidence brought to our attention of money laundering or counterterrorism finance activities being evident, nor any failings with respect to capital adequacy, solvency or the safeguarding of consumer funds. The financial impact of our response to the Minded to letter in terms of legal advice, advisory costs and the potential for an enforcement action is $11.4 million, which reduced our statutory or reported EBITDA to $42.2 million, also an increase of 30% up on the prior year but a lot less than the 60% it would be on an underlying basis.

We're not splitting out - I'm sure we'll get a question on this today but we're not splitting out that $11.4 million into its constituent parts, particularly in relation to what we're looking for in terms - what we've accrued or what we've budgeted for in terms of potential fines. You would understand that would make no sense for us to put that in the marketplace but it is - our assessment of that is within the $11.4 million. We understand that these types of events create uncertainty for the Company, they create uncertainty for shareholders. What we will endeavour to do today is to provide you with as much information as possible to help address that.

What we cannot do, and we haven't done since May is give a running commentary of our dialogue with the Central Bank of Ireland or to speculate on a certain outcome. Our focus is on the remediation project and we're well under way with this as you'd expect, given as I said the dates that I mentioned before. I'd also make the point that whilst these events are disruptive to the business, we are approaching it from the perspective that the changes that we put into place will be beneficial and will allow us to continue to be a leader in the prepaid space in Europe in the years to come.

With that, I'll hand over to Rob and he can take us through the financials.

Rob Shore: Thanks, Tom, and good morning, everyone. Going to take through the financial results with you so we're starting on slide 7 of the pack. As Tom outlined, today we've reported a really strong set of results for the 2021 financial year, delivering a record for all key measures including GDV, revenue, EBITDA and NPATA. I'll talk more about our balance sheet and cash flow shortly but we've also reported strong cash flow numbers with underlying cash inflows of $46.7 million at the operating level or an 87% conversion of EBITDA, underlying EBITDA.

We've used the same operating measures for some time now and on all key operating measures, they are record results. We've achieved this strong result despite some challenges including the regulatory matter involving the Central Bank of Ireland and our PFS Card Services business in Ireland. Remediation, advisory and other costs relating to this matter have resulted in a material impact to the Group in the year. So to assist investors to understand the operating performance of the Company, we presented both our underlying measure, which excludes $11.4 million of expenses relating to this matter, alongside to our more usual EBITDA definition we presented for a number of years.

On a preferred EBITDA measure which includes the costs of the CBI matter, it was $42.2 million up for 30% on FY20. So throughout these results, there are a couple of things to bear in mind. PFS we acquired on 31 March 2020. It's consolidated into the financial results for the full 12 months of the FY21 year as opposed to being consolidated for three months of FY20. PFS is just one of six acquisitions we have made since 2012 and with the Sentenial acquisition expected to close in the next 45 days, our financial statements are impacted by AASB3 acquisition accounting. There's a number of non-cash items in that and so as a result, we've disclosed information excluding the non-cash impacts of AASB3 in this presentation.

Looking at slide 8 now, the segment performance, there are some key takeaways I'd like to highlight to you. Starting with our general purpose reloadable segment, I'd like to reiterate that this is our largest segment in terms of gross debit volume at $9.7 billion of GDV, generates revenues of $113.6 million in FY21. It's the largest segment in terms of revenue and gross profit and our fastest growing segment, with both - with strong acquisitive growth and organic growth.

So firstly PFS. It performed well in most of its key verticals, particularly the UK government verticals with local council welfare management. During the year they also - they launched the Aspen program for the UK Home Office, the Jersey stimulus program amongst others and they were both done on our new TRACE processing platform. Existing programs in France and Spain also continue to perform strongly and PFS grew 20% over the prior comparative period. That's sort of including a period prior to our acquisition just gives investors flavour of its growth rate. PFS did see a direct financial impact from the CBI matter through lost establishment income in May and June, which is somewhere north of $1 million of lost revenue in that period.

Organic growth in the non-PFS remainder of the GPR segment was also strong. We had growth of approximately 34% over the PCP. The transition of salary packaging programs in Australia from a competitor was completed and we closed the year with over 320,000 benefit accounts live at the end of June and that will annualise through into higher revenues in FY22. Our gaming winnings disbursement programs grew strongly in all markets with GDV up 53% in the period and we expect to see further gaming disbursement programs launch in FY22 and that will support continued growth in this vertical.

In the gifts and incentives segment, we saw a clear impact from reduced footfall in the malls, translating to lower GDV. Conditions varied throughout the year and from country to country, as different markets experienced lockdowns and social distancing at different times. We saw trading conditions deteriorate in a kind of key period for the annual result, in that early to mid-December period, as Canadian and European lockdowns became more severe. Although in FY21 we were down about a $100 million of GDV against FY20, don't forget in FY20 we were also impacted by COVID restrictions as well. So comparing to pre-COVID run rates, it's actually a more significant drop than that.

We are seeing now much more positive signs in load volumes coming through in June and July, with evidence of improved trading performance in North America in Europe. Not all malls are back to pre-COVID volumes on a like-for-like but across the portfolio we saw gift and incentive volumes were about 18% up in June and 27% up in July and up over the FY19 year as well. So we saw some pretty strong improvements in conditions and we hope they will continue through the remainder of the FY22 year.

It's impossible to accurately quantify the impact of COVID on a segment, but we'd estimate it's several hundred million dollars of GDV. Although volumes were down in FY21 which we're attributing to lower footfall in the malls, it was somewhat offset by higher breakage rates, particularly in North America, and we recognised an additional $11.1 million of revenue and profit to do with COVID breakage. This is reflected in the revenue yield which increased to 635 basis points in the year up from 581 in the prior period.

The impact of the $11.1 million of additional breakage rates, higher breakage rates is about 100 basis points on the yield. So stripping this out, you can see the decline in the segment yield that we forecasted driven by higher volumes of incentive programs, which is a much bigger market but at lower revenue conversion rates.

We did see during the year continued sustained growth in incentives or the non-mall programs and they made up 44% of the segment GDV in the year. Incentives programs were up 11% with new programs launching and often taking advantage of our digital solutions for employee engagement, customer engagement, marketing programs and the like. We expect to see continued growth in this segment with the FY21 program launches delivering growth in FY22 alongside a stronger retail environment in the FY22 year.

In the VANS segment, it was relatively flat volumes and I'd describe it as a steady state, though a customer mix shift improved GP margins for the segment on a slightly lower revenue base and in April we announced the acquisition of Sentenial. Tom will give an update on that in his remarks shortly. Sentenial is a leading open banking and account-to-account payments provider and we think it will bring approximately $90 billion of annualised volumes and so it's going to be consolidated into the VANS segment. As a result of that consolidation into VANS, we're going to rename the VANS segment to be digital payments in FY22, which reflects the broader product offerings that that segment will provide.

Moving onto slide 10, the year delivered record revenues, we were up 60% to $194.2 million. This is excluding $2 million of non-cash amortisation of AASB3 fair value uplift on the bond portfolio that we acquired. The majority of our revenues are generated from recurring revenue streams in the GPR segment. The GPR segment accounts for about 58% of Group revenues in the year, with PFS contributing $78.3 million for its full 12 months of consolidation, which was up from $15.6 million in FY20. Organic growth was also strong at 34% for the year. Revenue yield in the GPR segment was up to 117 bps for the year, slightly higher than the first half which was 112 basis points.

The gifts and incentive segment contributed 36% to Group revenues and in the year, we made about 19% from breakage, so that's well down on the PCP despite the higher breakage rates that we saw in this year. We flagged previously we spent a significant amount of time evaluating with our third party statisticians in North America, our North American sponsored banks, evidence of low redemptions on our gift and incentive mall programs. We've attributed this to lockdown, social distancing and the impacts of that on lower foot traffic in the malls and that consequently reduced card spend over a 12-to-18-month period, post activation of the cards through the pandemic. That's translated into higher breakage rates. We continue to be conservative and we're doing this in conjunction with third party statisticians and banks who both review the data alongside us.

Globally, central bank interest rates on the cardholder float we manage have been a headwind across all the segments as we continue to see low interest rates in the UK, Australia and North America and we see negative interest rates in the Eurozone and we see banks - the banks that we deal with and we leave our float with keen to pass that through. So we've incurred net negative interest rates on our European float balances in the year and that increased in the second half of the year.

Our global treasury team worked hard to minimise the impact through term deposits or government-backed bond investments but it is a cost and whilst we're optimistic rates will rise in the FY23 and beyond periods in some of our jurisdictions, we hold a total float of $2.1 billion. So it is a cost to our business. We would benefit of course if we were to see rising interest rates in future years, we would be a beneficiary of that.

Looking on slide 11, at a headline level, gross profit rose to $130.4 million, margins slightly lower at 67% due to a segment mix towards GPR and the dilutive impact of consolidating PFS. We also saw impacts on that of negative interest rates and an increased cost of those negative interest rates in the second half and then we saw the impacts of lower establishment revenue in June due to the CBI matter in the PFS business.

PFS will be a lower margin business until we can move their payment processing and insource their payment processing as well as bringing its faster payment connections directly to the Bank of England. They push down the gross profit margins for that business. Those were two gross profit synergies we identified in our acquisition thesis. So, a quick update on those, the direct connection to faster payments became fully online this month. We expect savings of approximately £0.5 million in FY22 which will impact the GP margins, improve the GP margins and the project to bring processing inhouse remains on track. As I said earlier, launched the Home Office program on the TRACE platform and we also launched the Jersey stimulus program on the TRACE platform, so you'll see more programs launch onto that TRACE platform in FY22 and there's a target completion date of the end of FY23 for that project.

We continue to regard cash overheads as a percentage of revenue, as a key metric of operating performance. So in the period, the employee costs as a percentage of revenue was 28%. It was down from 32% in last year. The majority of the decrease over the prior period relates to the acquisition of PFS being consolidated in the year and scale synergies in relation to that coming in. Employment-related expenses make up 70% of Group cash overhead and that's reflective of the nature of our business model. Employment costs included an accrual of short-term incentive payments given the strong results in those business units that wasn't there last year due to COVID.

We flagged increasing investment in new roles including at PFS and we saw this eventuate through into the results, although the timing of recruitment has been challenging, particularly given the strong competition in the labour market in Europe, in our European operations. We saw increased costs overhead such as insurance, internal and external audit fees and IT costs and we'd expect that to continue through into FY22. We'd previously estimated $76 million to $80 million of overhead costs back in February. So we came in at the lower end of that range, excluding the costs associated for the CBI matter.

Costs of the CBI matter include those incurred in the year of about $1.5 million and a provision for just under $10 million of costs which we expect to incur in a future period, predominantly FY22, to bring the matter to a resolution. Examples of those costs include those relating to professional advisory fees and remediation activities.

On slide 13, the outcome of all this is an underlying EBITDA of $53.5 million for the year. Continues our track records of strong growth which translates to a five-year cumulative annual growth rate of 65%. On a reported basis, our EBITDA still grew at 30% over the PCP to $42.4 million. We'd estimate we incurred an FX headwind of about $3 million against the basket of currency weights we saw in the prior year and that's due to the strength of the Aussie dollar and most of our currency impacts are against GBP, EUR, and the USD in particular. Nevertheless, the underlying EBITDA was towards the top end of the guidance we provided in February which was $50 million to $54 million, so $53.5 million is a good result.

On slide 14 we reconcile between EBITDA and NPATA. There's a couple of points to mention. Depreciation and amortisation of $29.8 million at the statutory level, 68% of that relates to amortisation of acquired intangibles, so that's fair value uplift that we do when we buy a business. The business-as-usual element of that therefore is $9.6 million which is included in NPATA and you'll see that on the bridge. This was offset by about $11.5 million of internally developed software in the year as we continue to invest in the business. So it's pleasing to see it was investing slightly higher than the amortisation rates.

Share-based payments relate to executive STIP and senior leadership LTIP, long term incentive plans, and the full amount of $5 million is included in the NPATA number. Finance costs include costs relating to the Group's syndicated debt agreement and vendor loan notes. Other expenses are mostly unrealised foreign exchange on the translation of foreign currency balance sheet items.

When we did restate the acquisition balance sheet and we'll discuss that in more detail shortly, one of the results was that the contingent consideration, the earnout on the PFS business was reduced to nil on acquisition. So 30 June we had to reanalyse the expected performance that resulted in an estimated earnout liability against the predetermined targets we agreed in March 2020. That's come up slightly from zero. We had a tax expense in the year of $6.4 million excluding the R&D recovery and we've used all of our European tax losses and we've started to utilise losses in the US and in Australia.

If you follow the statutory profit line below the chart, you'll see the full reconciliation between EBITDA and NPAT as well, but given the significant impact of non-cash acquisition accounting, we continue to believe that non-statutory measures give a better reflection of our operating performance, particularly evident when you compare the NPAT loss of $28.7 million to the statutory operating cash inflows of $48.8 million and that's why we think the non-statutory measures give a better indication.

Looking at the balance sheet on slide 15, there's a few things to highlight. We've split our cardholder assets of $1.71 billion and liability to cardholders of the same amount. These are the amounts held on behalf of our customers and are directly offset by the liabilities to the same cardholders. On 30 July, we announced we identified various irregularities with respect to length of time accounts were being safeguarded prior to acquisition for PFS. As a result we've injected $28.2 million into the cardholder float following year end. Whilst this is a cash outflow now, it will be released back to the Group in cash and revenue in the period from FY22 to FY28.

The restatement is discussed on the next slide and as previously announced, the adjustment related to the pre-acquisition period and it's resulted in a correction to the acquisition balance sheet. The impacts of this to the contingent consideration which is reduced by $63.7 million in the acquisition balance sheet to nil. The customer contracts and tangible assets increased by $15.9 million and liabilities to stored value account holders increased by $28.2 million with the balance moving through good will.

We end the year with surplus cash of - total cash balances of $141.2 million and no secured debt drawn down from our Group's syndicated debt facility, which is established in connection with the Sentenial acquisition this year. Our businesses are cash generative and we're also holding a contract asset or breakage recall asset of $26.6 million, of which $16.4 million is expected to convert to cash over the next 12 months.

The Group's funded a premium on purchasing bond investments. These are what the European regulator deems as zero risk investments, so they're very low risk government-backed assets where we invest cardholder funds, but the Group receives the economic returns. We have a policy of not actively trading the bonds and we hold them through to maturity, so this is more than $5.8 million of Group cash which will convert back in future periods. The bonds are an important part of our treasury policy to offset low or negative central bank interest rates on the cardholder float, but the premium has been increasing as you will be aware due to the extremely low interest rates in the European market on euro deposits in particular. As discussed earlier, we've provisions of $10.8 million to fund the expected future costs of the two PFS regulatory matters.

So moving onto the cash flow on slide 17, the business continues to generate significant operating cash inflows with new record underlying cash inflow of $46.7 million in the year. That's 87% of the underlying EBITDA result. Slightly below our guidance in February due to the timing of breakage receipts and remittances of customer share alongside the improvements in gifted incentive volumes in quarter four, driving up the working capital reinvestment into the contract asset line.

We continue to invest in internally generated software development, and we capitalised $11.5 million of CapEx relating to building the technologies to drive the Group's growth in future periods. So as we've mentioned previously, investors should expect this to increase in FY22 as some of the Accelerator projects move from the design phase into more of the build phase, you will see that fall through into that line. We've made two FinLab investments in the FY21 year which we announced previously, Interchecks and Hydrogen, which total $9.7 million in the period.

So moving onto slide 18 now and looking at our guidance for the next financial year. There's a number of moving parts and investors should appreciate this drives the guidance range for the year, which we intend to tighten in a future period. We expect to close the Sentenial acquisition at the end of next month in September and consolidate it to nine months in FY22. This is subject to regulatory approval by the French regulator, the ACPR, and we're expecting them to assess it in early September which triggers end of month completion.

So our FY22 guidance on key metrics is as follows. Group gross debit volume of $93 billion to $100 billion including $24 billion to $27 billion from prepaid and $69 billion to $74 billion of volume coming from accounts or account payments from the Sentenial business; $220 million to $255 million of revenue including $10 million to $15 million from Sentenial and an EBITDA, $55 million to $65 million result at the underlying including breakeven to a $3 million loss from Sentenial. So we're going to be investing to drive growth in that business in line with our acquisition strategy and an operating cash flow in the 80% to 90% range conversion of EBITDA.

It would not be our preference to give guidance now. We typically provide guidance in November when we have more information and we've got some of the start of the year, the results from the start of the year to you. We've chosen to provide guidance earlier than usual for a few reasons. It does drive an increased range at this point in time. So firstly the consensus numbers haven't been updated by the analysts since the CBI investigation in May. So we felt it would help investors understand that the additional European overhead cost is a one-off step-up in spend in FY22 but it's not a change in the growth rate assumptions to the increased overhead base in future years. It's a one-off step-up is the important piece to note.

Secondly, we want to provide some information as to our plans for the Sentenial business which is to increase the spend on sales and marketing earlier and back the management team in that business to deliver strong revenue growth expectations for that business and so we're forecasting somewhere between a breakeven to a $3 million loss for that business and that's going to drive revenue growth in the future period, which is slightly different to the consensus.

There's a few assumptions in our guidance as well we should think about. The reopening of European and North American economies is already apparent in the GDV we've seen in the early part of FY22. We're only six weeks in but we've seen that already. It's a key assumption though that trading conditions continue to improve and we do not see significant lockdowns in FY22 in those key European and North American markets. Our Australian business is not materially exposed to the gift and incentives segment and the Australian results have not been materially impacted by the recent Australian lockdowns.

We do expect to see a higher cost base driven by the requirement to add roles in Europe in connection with the CBI's expectations, expect to see higher insurance costs and we've expanded the scope of our internal audit function alongside higher external audit fees given the complexity of the business. We're forecasting overheads of between $85 million to $92 million excluding Sentenial and $97 million to $106 million including the Sentenial business.

There were also key assumptions with respect to Ireland. Firstly that the provisions we've taken up in the FY21 year is sufficient to cover the actual costs that we're going to incur in FY22 and also that the remediation plan we've outlined for the CBA is completed on schedule which is predominantly by December 2021 but does not extend beyond March 2022. We haven't forecast any material change in central bank interest rates or foreign exchange rates in this guidance as well so that could also impact the eventual out-turn.

So with that I'll hand back to Tom to take you through the business update.

Tom Cregan: Thanks, Rob. I'll try and speed through some of these slides in the interest of time so we can then get into questions. The first page of the business update you'll see a number of highlights there, but I would point out the launch of Project Accelerator, certainly the acquisition of Sentenial as we push into open banking and account-to-account payments and as Rob mentioned before, becoming a member of faster payments in the UK with our first transaction to be processed next week.

As shareholders will recall, when we acquired PFS there were a number of projects under way to drive long term earnings creation including the launch of the Aspen card for the Home Office in the UK which went live, the launch of the Avios multi-currency card program which also went live during the year, becoming a member of faster payments which we were approved during the financial year and then as I said, first transaction next week, and the launch of TRACE, which Rob mentioned before. So that came online and was certified during the year.

It has managed volume for several new programs. It will also manage the volume for the Northern Ireland stimulus program but circa 5% of existing volumes are being converted over at this point. So as Rob mentioned before, that was a three-year synergy target to get rid of $6 million plus in external processing costs so that conversion process will now kind of become more in earnest over the next kind of 24 months. In between that, as I mentioned before we managed the impact of COVID and Brexit. So the team, particularly in Europe and our Group execs certainly had their hands full in 2021.

On the following slide you will note a brief update on the Sentenial acquisition. It is a growth investment for us. Clearly, the earn-out consideration is based on revenue growth three years out. So the earn-out period I think finishes December of 2023 and that earn-out target was €27 million of revenue which would correspond to roughly €15 million EBITDA depending on how much we would reinvest into growth. Our shareholders have become familiar I think with our competitors in the prepaid space over time, but they should certainly become more familiar with names that we compete with in the open banking space, such as Modulr, Tink, Trustly, Plaid, TrueLayer, you know, as other early movers in the open banking space and pay attention to the valuations of those companies who are receiving the kind of - particularly when they're being acquired and look at that relative to what we've paid for Sentenial and where we think that'll be in coming out years.

Moving to the business development slide, I think we had a pretty good year in terms of bus development. We signed 121 contracts. That's a pretty good cadence in my view of two contracts a week. Importantly, 85 of those were in our GPR segment so that's where we are focused on driving that growth from. We've delivered 144 programs in the year, 21 of which were signed in FY20. So that'll give you an idea of just the lag that exists between signing contracts and the implementation of those programs and that lag exists for a raft of reasons. By and large, we'll sign a contract with a customer. That customer will then have their own development work to do to integrate to our platform. They've got their own launch timeframes which would include how and when they intend to market and promote their programs. You've got scheme approvals with Mastercard and Visa to achieve and regulatory approvals prior to programs being launched. So there's a process there that every contract we sign goes through.

So put another way, we implemented 123 programs that were signed in FY20 so - and then we start the year with roughly 100 programs that are in various stages of implementation and will drive GDV in the out years if those programs scale. That's just the nature of pipeline management. We will always have new business expectations in our pipeline, contracts being signed that will be implemented six months post, and you'll have programs being implemented that were signed six months earlier. So that's just the nature of how the pipeline will work.

In a pipeline sense, we have seen continued momentum which slightly increased the GDV that we would see at maturity. Noting that our historical win rate is 40% - I think we went through that on our half year call - that reassessed tha 40% is higher - I don't think it is. So I think between February and now, our win rate is similar to where it was.

I'd make the point at this point, that we're yet to see any customer defections in the wake of the CBI matter, which is pleasing, but we haven't launched new programs in Europe in the last 12 weeks. As we focus on those remediation efforts and we're in discussion with the CBI around that, we haven't seen any of those customers exit. We haven't seen any kind of contagion impact if I can call it that from existing clients with programs in market, which is very positive, but we've not modified our pipeline data to take the CBI matter into account.

So the triangle on the right-hand side with the pipeline is as it stands. We haven't kind of sensitised that to the - for the CBI, but as I said before in May I think at a previous investor conference, continued uncertainty with respect to sign new programs or implement new programs, could ultimately impact pipeline and future growth rates and that's just logical to assume. So that's obviously something we're discussing pretty closely with the Central Bank so that that uncertainty can be removed and customers and programs have certainty about being launched.

Moving to the following slide, you'll see a number of callouts in the government and NGO space which is certainly a key part of PFS's business, is government. Not only in the UK but in other countries - Finland and others. The Jersey stimulus program was a pretty small program. It was £100 gift card to 100,000 residents. So it was £10 million but importantly ran on TRACE and had a couple of - the TRACE processor has certain controls on it that enable that spend to be locked down to the island of Jersey.

The success of that I think even though that was a pretty small program of £10 million, certainly positioned us well to - with the Northern Ireland program which was £150 million. The cards go out at a rate of a couple 100,000 a week, commencing kind of middle of September. There's 1.4 million-ish cards that'll go out over the ensuing weeks. So that's roughly £150 million or AUD273 million on current exchange rates. I'd say it's early days as European economics re-emerge from lockdown but we are working on other opportunities as we speak with other countries. So I think the success of the Northern Ireland stimulus program hopefully builds confidence in their kind of program for other governments to look at.

Moving to the next slide, you'll see some of the key program launches for the year including Avios which I mentioned before, Laybuy and Humm in the Buy Now Pay Later space in the UK and Australia which people would be familiar with, and Zeller which you may be familiar with just from looking at advertising on TV. Zeller completed a large private raise recently and is targeting the merchant POS market, so kind of competing with the likes of Tyro. So a merchant gets a POS terminal, has our payment card attached to that. So if debit, credit transactions occur, the proceeds from those transactions are cleared in real time to our card, providing the merchant with immediate access to cash flow versus the settlement through a bank that would occur at the end of the day or on the following Monday.

Moving to the following slide, we look at some of the key launches. Rob's mentioned the completion of the sale pack program, the launch of a gaming program with Paddy Power in Ireland and our launch with Zenith, a large marketing and media agency in Australia with a history of offering prepaid card programs. Some of the ones on the right-hand side that we're pretty optimistic about, so CherryHub is a company we're working with for the pubs and clubs solution in Australia, which is kind of a compliant payment loyalty solution. Raise.com has kiosks in Walmart stores in the US that enable you to convert the balances on various close loop gift cards onto a new open loop gift card. We think the GDV potential there is pretty significant.

A company called M3T which also operates thousands of kiosks in the US and our cards can be used for a variety of things. In one hand they're a gaming machine, so they can be used for gaming payouts, but they're also lottery terminals. So there's discussions with different state governments in the US for lottery payouts and in some states they're used for welfare payments as well, food stamps and other things like that. So we're pretty bullish that when that program goes live, it over years can evolve into a pretty broad-based payment distribution. Investors would also be familiar with Betmakers, I think, given recent media activity and we're working with them to launch a gaming program in Australia as well as the US.

The following slide we provided some additional details in relation to the CBI matter, some of which I made in my introductory comments. What I would say is that we're in regular contact with the Bank. Those meetings are not adversarial. They're completely aware of the remediation efforts that are under way and communication is regular. So that's a positive and I think working in the right direction.

I think it's also worth noting that when we acquired the PFS business, in our investor deck at the time - so I'm going back to November 2019 - called out various compliance failings the firm had incurred in the past and at our AGM in the same year we declared that we would work to bring the compliance function up to the standard that we're used to in our other businesses. What investors should be mindful of is that that work commenced post acquisition. So we recruited new heads of risk into our team, we onboarded new KYB KYC suppliers - obviously those things have got to be - there's an IT integration process to buy that kit and buy that software and then have it integrated. We implemented a new risk assessment tool. We last year licensed an enterprise grade transaction monitoring system called Predator which a lot of large banks use. It's a system from GBG.

All of those things have gone live. We increased our resources in our compliance function from 22 at the start of last year to 45 and these things happened before receipt of the Minded to letter, so they were investments and activities that we were undertaking to bring the PFS business and their compliance functions up to the kind of level that we would expect to see at - in other regions, but clearly we've got more work to do and that's where the remediation program is focused on. Particularly governance and the incorporation of the board of PCSIL which is the European regulated entity.

It really is PCSIL that the CBI regulates and as far as they are concerned, PCSIL is EML, right. The fact that PCSIL is part of a global business is fine, but they expect PCSIL to have a board with independent directors that manages risk and directors and resources that are local and are part of what they call a hearts and minds strategy, along with people in defined PCF functions which are kind of control functions, because the Irish Government have a very similar system to the bank exec accountability regime in Australia that's called SEAR, senior executive accountability regime, that comes into place late this year, kind of October-November timeframe. So there's a clear - with a hearts and minds strategy there's a clear preference for directors to be independent, to be Irish and for the PCF functions to be in country.

I don't think that's novel. I think we will see that in other markets as well. We've got a branch licence in Spain, for example. I think it's Sentenial who are licenced in France. I think that that's the way that most of the entities will go, right, which is - I mean the European Banking Association just to divert for a second, has brought in a rule at the end of this year that effectively says branch licences and entities, have got to be resourced to locally manage those - the kind of risk and compliance function. So I don't think what we're seeing in Ireland is unique in terms of how other regulators will expect resourcing and roles to be local and independent directors to be in country.

As shareholders will remember, when we acquired PFS, that was originally for AUD425 million along with a £55 million earnout, so call that AUD100 million to AUD110 million earnout. Pardon me. We subsequently renegotiated the price down by $170 million, given COVID-related uncertainties, which certainly resulted in a strong balance sheet with cash reserves to trade through economic uncertainties. The result of the costs incurred and accrued as part of the remediation plan which has gone through the PFS P&L statement has seen us adjust the contingent considerations down, and our assessment today - and this assessment is very detailed - is that the likely earnout is in the region of about £8 million now. So AUD15 million to AUD16 million down from the maximum of AUD110 million to AUD110 million.

Moving onto our strategy slides, some of those you'd be familiar with from previous presentations. I'll skip through to the slide on our platform capabilities because as I've said before, our platform is our product at the end of the day. That's how customers integrate with us. That's how they offer their programs to their customers. It's highly developed. We continue to invest in it. The more features and functionality it has, the broader our opportunity will be.

The following slide in terms of our Accelerator, Rob's mentioned a couple of these, particularly Sentenial and others but we have undertaken the work to integrate to the Visa network - that was one of the key projects - so that we are able to support the same product, their gift, their GPR, their physical, their tokenised, their digital, on both networks, which just gives our consumers choice and puts us in the payment flow of programs that have predefined Visa in their scheme which ultimately should increase our market opportunity. EML CONNECT launched, which allowed customers to integrate to our APIs. TRACE we mentioned before. The FinLabs investments we mentioned before. So we made a fair bit of progress in that.

On the following slide though we talk about what we're doing to drive new business through the use of data. As digital payments grow, the decisionmakers are not necessarily CEOs and senior managers but software engineers who are looking at how easy it is to develop a solution, integrate onto the platform and use our APIs and then increasingly are making the recommendation as to which suppliers to use. So you've got the traditional sales channel that we have today which is direct selling through our business development execs to prospective customers and you've got - there's a whole other subset of programs that you may not see because they're being driven by IT software engineers who are, in inverted commas, who are road testing different platforms and different providers and then recommending that to their management teams as to which one to use.

On this page, we call our dev hub which launches in September. So dev hub is a fully exposed open access API platform which allows those same software developers and engineers to access, develop, test, document, pull up documentation in one place which we think will capture some ground relative to competitors. It's often called a sandbox environment as well, so sometimes the terminology is - you might see it referred to as that but - so that goes live in September. We relaunch our website in September.

So a prospect can move from our website to our dev hub and we can increase our sales conversion from our website, which is - isn't where it needs to be today. It's pretty small. So there's an opportunity for us. We then implemented HubSpot in ZoomInfo which allow us to track our prospects' interactions with us and who that prospect is and understand that customer in more detail. So that's about getting more insight into the companies and the prospects that are looking at our website, looking at our development environment and then hiring us to kind of reach out proactively. All of that at the end of the day is about us selling digitally as well as physically. So it's all about again just increasing our pipeline, increasing our close rates and ultimately organic revenue growth, which was the driver for Accelerator.

I won't go through the next two slides on FinLabs because you can read that at your leisure. Following that we've got slides on Sentenial and just open banking. I'll probably skip through those as well and you can read those through in your own time. I think it's worth looking at the use cases. I mean open banking can be demystified. It's really real time bank payments between a consumer and a merchant. It's that simple, whether that be in country or cross border. So therefore it's an alternative for merchants to look at ways of getting money in, other than through credit or debit card which obviously has a high interchange cost for them and for the consumer, it's for those consumers who don't have or don't choose to use a debit, credit or Buy Now Pay Later or other facilities. That's what it is, in its nutshell.

It's very easy I think for investors to look at the kind of use cases because that gives you an idea of why we're excited about it and why we think there's a really strong fit between open banking and our GPR segment. For example in slide 39, I think you'll see that the gaming payout program - so investors will be familiar with that, we've been running those programs for quite some time - which allow the customer, when funds are won, to access the winnings from their gaming wallet to our card. This now allows us to facilitate the money in as well to that gaming wallet which again when turned over - so when spent - then allows the winnings again to be withdrawn to our card.

So today we're on the money outflow. The potential with open banking is to get onto the money inflow as well, which increases our opportunity, adds more value to our customer and increasingly we think those customers will look for one supplier to do multi-functions as opposed to having two vendors for each different solution.

The following slide you look at things like bill payments and subscription payments which is a significant opportunity in Europe. Most of us know the frustration of signing up a DD authorisation, only to find it's very hard to cancel that same DD authorisation going forward. Open banking really puts the customer in charge of recurring payments. So we think subscription payments and bill payments will become a big driver of growth in open banking.

The following slide we look at things like earned wage access which we really do think will be one of the biggest transformations we see. There's a myriad of companies in the space working on that. We're engaged in multiple discussions with people in that space and today we could provide a card payout for customers who are drawing part of their salary onto it but with open banking, we can obviously facilitate payments in and payments out, be that to their card or their bank account.

So those are opportunities that we're working on live, and the following slide is really just the fact that we'll be integrating the Nuapay platform to TRACE and then the intent is to kind of multi-instance that platform so that in the course of the next kind of 12 to 18 months, all of our regions will have a TRACE operation limit as our preferred GPR platform with open banking capabilities and that was really the - that's the gist of that project.

The Sentenial - I mean I think there will be questions from investors on Sentential. I think - our thinking on this, I know markets are short term in their thinking and their expectations but the - if you look at the - I think our communication has been pretty clear about the timing and where we see that really benefiting EML in terms of growth. I think the recent revenue multiple for Tink which was acquired recently in Europe was 50 times. So, we - which obviously we didn't pay for Sentenial so we see that as a long term growth asset, but we're not going to manage it with short term thinking.

So if it means we're investing, you know, $2 million into sales and marketing which we're electing to do this year, then that's what we're going to do because this isn't about next month or three months from now. It's about three years from now. So that's our - that , I want to make that point clear, that it's not - we don't look at that as a short-term asset at all.

Finally, the last slide, I think we've had some questions from investors which is good in the last kind of six to 12 months on ESG and particularly People, wanting to know things like engagement rates and so forth. So, we'll include these more now as kind of - as standing items and in all honesty, we should change the priorities of these slides and put this number one because the - I've run this business for nine years, but we've got a dedicated team who take it really personally when challenges are thrown their way. In the last 18 months I think we've had our fair share of those challenges, but what I'm confident in is that the team that runs the business is pretty battle-tested. That might sound a bit corny but you see the capabilities of people when times are tough, not when times are good and I think that the challenges that we have overcome, be that Brexit, be that COVID, and then now look at the CBI, but ultimately that's just another challenge that will be overcome.

As I said, the rubber hits the road when people are working and managing those challenges as well as their core role so I'm certainly grateful for the team that I run and for their work ethic and commitment because it enables us to provide these results that we have today. With that, Operator, I'll open up for questions.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speakerphone, please pick up the handset to ask your question. Your first question comes from Steven Kwok of KBW. Please state your question.

Steven Kwok: (KBW, Analyst) Hey guys. Good morning and thanks for taking my question. The first one I had was around the CBI regulatory matter. I guess as we think about it, what are the next steps that we should be looking at for and then secondly, are there any constraints around capital investments that you can make under the proposed matter? Thanks.

Tom Cregan: Yes, thanks, Steven. No, there's no constraints around capital or investment. So there's no constraints there. I think the thing that investors will be looking for in relation to the CBI matter, they'll be pleased to hear that obviously the remediation plan is in place and the CBI is comfortable obviously with us saying that we're actively engaged in that process. We communicate all this wording, proposed wording to them in advance obviously.

I think that what investors will be looking for is certainty around the ability to onboard new business. We are in discussion with them. I mean part of their response to us is look, the firm will continue to grow organically and through new programs and what have you but we're working on kind of what that growth - what number that growth might look like during the remediation period and bear in mind that the remediation period would substantively finish by the end of December which is why we're putting that timeframe in place.

So I think investors will be pleased to see that it's not adversarial and that it's being worked through. I think the comfort factor they'll be looking for is when the kind of pipeline of business that's been pre-submitted starts to - kind of starts to be implemented. When that is, I can't really speculate on that in terms of specific timing, but I can tell you that it's something that is - we're in regular conversation with them about.

Steven Kwok: (KBW, Analyst) Just my follow-up question is just as we think ahead on the PFSI acquisition, there's no changes around the long-term synergies, right? It's just that it could take a little bit more time, just given what's going on, but nothing has changed from a longer-term perspective.

Tom Cregan: No, correct. I mean the - pardon me - the faster payments piece, I can't honestly remember when that was meant to go live. I think it was meant to go live earlier in the calendar year, kind of January timeframe, but the Bank of England only has one slot per month for companies to go live on the network. So, you've got - that's managed by the

BoE so you've got a bunch of companies that want to become direct members and you've only got a certain number of slots to get positioned into.

So the fact that's now live tomorrow is a good thing. That means that there's a synergy saving for our business and then I think we pay something like £0.20 per transaction, it comes down to £0.02. So that was an AUD800,000 annualised synergy that we announced when we did the deal. Sentenial also outsources its faster payments access as well. So part of our project between now and when we close that deal is to try and - we'll become the provider of faster payments for Sentenial, so there should be some kind of uplift there too in terms of synergies.

Then on TRACE, the synergy saving was AUD6 million there, kind of by the end of year 3. I think we'll get there. We've had one year effectively of getting TRACE certified by the schemes, bringing volume across, obviously no one - you don't do that gung-ho. I mean you bring programs on and you load balance and you test and then you kind of build it out from there. So most of the volume is in new business that's going on and then over the course of the next couple of years, we'll start to migrate our kind of existing programs across to it and that's when you start to see the synergy benefits kind of flow through which help the overall number but they also help the gross margin number because when you take AUD6 million out of processing costs away and AUD800,000 of faster payments away and you put that onto the PFS business, their gross margin - excluding negative interest rate, their gross margin doesn't look much different to what our other businesses do.

Steven Kwok: (KBW, Analyst) Great, thanks for taking my question.

Tom Cregan: No problem, thanks.

Operator: Your next question comes from Elijah Mayr of CLSA. Please state your question.

Elijah Mayr: (CLSA, Analyst) Good morning, guys. Thanks for the question. Just a quick one on the Sentenial and Nuapay, just with the increased marketing spend that you guys sort of called out, is that required to reach the previous revenue and GDV expectations or have those expectations been rebased or changed?

Tom Cregan: When we bought the business, part of the SPA was for us to invest $5 million over three years to kind of grow the business and part of why they wanted to be part of a bigger group was to have access to capital to enable them to expand because it was a private business, they're trying to run the thing on the smell of an oily rag, because as they had generated EBITDA, they've reinvested that EBITDA into growth. So we always had a commitment to make that investment.

I don't think it's necessarily linked really to the earnout. I mean the earnout is based on what we negotiated in the SPA but I think we said back in - I think we said when we announced the deal that if you took €27 million as the kind of incremental revenue number, on which the earnout is based which is 40-odd million, and that number at the end of the day is €20 million, then it means you're not paying that earnout. So you know, the - at the end of the day that then becomes a $70 million deal with a pretty low multiple on it that's still generating a fair chunk of incremental revenue.

So $2 million of sales and marketing investment won't be the difference that gets them to a $27 million revenue line but it would be stupid for us not to invest in it. I mean if you look at - give you an idea, a company like Nuapay has three or four sales people and their web dev people in Europe on our side that are on the bus dev front as well. The private companies that they'd be competing with that are PE owned, companies like GoCardless have a hundred people just in the UK. Because they are raising money at valuations that support it. So if you can raise $80 million on a $1 billion valuation, then you don't have to worry about profit and you don't have to worry about return. Then you can hire a hundred salespeople and some of those companies that I mentioned before have pretty sizeable sales and marketing team.

So it would be - it would just be counterintuitive for us to buy it as a growth asset and just expect it to happen by itself magically and in three years' time, lo and behold €27 million falls out of the sky. I mean we're going to own it, we're going to have to run it, we're going to have to invest in it. As I said, $2 million and the other $3 million that we'll invest over the next few years won't be the difference between them getting €27 million in revenues, but it'd be silly for us not to invest in it. We've got a balance sheet that enables us to do that and it's a long-term growth asset. We need to treat it that way.

Elijah Mayr: (CLSA, Analyst) Yes, understood and just a second one if I could. Just on PFS and following on from the previous question in terms of the long-term perspective of that acquisition, FY21 the revenue was around $78 million. Pre-COVID the guidance at acquisition was $84 million. Is that shortfall, can that purely be attributable to the COVID impact and CBI matter or is there any sort of change in the underlying business from your expectations at acquisition time?

Tom Cregan: I think most of the - I think CBI, the thing that was probably the most immediate impact - sorry not CBI, COVID - a year ago was multi-currency travel cards because that was 10% of their volume. So that was in their numbers when we bought the business because it was obviously historical in the year prior. Then when COVID came along, lockdowns, no travel, we got zero from that - that 10% was effectively nothing, so the - in FY21. It's very seasonal. I mean clearly, it's most now, we're at July, August, September during the kind of European holidays and we're seeing that now actually. So, I think July was the record month for PFS in terms of volumes, August will surpass that. So you're seeing some of that seasonal volume come back which is pretty pleasing.

But, by and large I think the rest of the business, if you took away multi-currency, by and large most of the business is performing pretty well. On the CBI matter, the impact was more - I think Rob mentioned at the start of the call, $1 million of revenue through the setup fees and programs that are signed where we've just had to wind back, reverse basically the setup fee and then when the program launches, we'll recharge it. Because if you can't provide certainty to a customer as to when the launch date is, we didn't think it was right to be charging them and sitting on it and not being able to give them certainty.

Hopefully when we get that certainty, then that amount will be recharged so you know that was probably the immediate impact of the - to the year as well as just programs that would have launched in that last month. So I don't think the CBI had an impact really other than that $1 million, directly on revenue in the Group. It was probably more COVID related in those particular segments.

Elijah Mayr: (CLSA, Analyst) Excellent. Thanks that's helpful, I'll leave it there.

Operator: Your next question comes from Garry Sherriff of RBC. Please go ahead.

Garry Sherriff: (RBC, Analyst) Morning, Tom and Rob. A few quick questions. Firstly the GP margins. FY23 and FY24, can you maybe just give us a range on how we should think about it and what specifically could drive the improvement in GMs. I guess that's question number one.

The second question about the ongoing permanent compliance costs, can we be a little bit more specific on what we should assume? Is it $5 million to $10 million incremental cost going forward in terms of systems, processes, controls?

I guess the final question is in relation to open banking. Big market in its infancy, I guess very competitive, certainly will be. Interested to know why you think Nuapay will win and maybe if you were able to frame up who the other competitors are out there in the market you see as being dominant competitors?

Rob Shore: Do you want…

Tom Cregan: I think - well let me answer, I can - I'll take this one, Rob, and then I'll hand the next to you, so people don't get sick of hearing from me. I'll probably answer that, Garry, so I'll answer that in terms of the compliance costs, and I'll answer in a kind of roundabout way. If you looked at consensus for - because the ongoing costs in relation to headcount and so forth which aren't one time will flow into the - well, they do flow into the EBITDA guidance. So I think if you looked at where we're at, analyst consensus was $72, insurance bill went up $1.1 million courtesy of mooted class actions. So when you've got a couple of firms who are trawling around for litigation funding, unsurprisingly, your insurer gets a bit nervous about that so you've got a million buck higher insurance bill off the bat that wouldn't otherwise be in our numbers.

You've got increased legal costs that you've got to accrue for along the same lines because you've just got to make the assumption that you're going to have to accrue and you're going to have a higher legal cost bill than you've had in years gone by. The remediation - incremental headcount in Europe will be somewhere in the realm of AUD3.5 million on an annualised early this year and then that will grow in the following year because we won't obviously have all of those people on the payroll for a 12 month period but that'll be the kind of - the ballpark numbers.

So if you work back, $72 million gets you to $71 million, on insurance gets you to $70 million, if you've got higher legal costs you're now kind of $66 million, by looking at higher headcount costs in Europe on remediation and the delta of the guidance is really because of uncertainty about the ability to onboard new business and when that will happen. So you've just got to build in a conservative buffer of what that might be. We also had the benefit last year obviously $11.1 million of higher breakage with COVID and we were $100 million less in GDV.

So if you took our malls business and you kind of added our normal take rate on that at our normal gross margin, that $100 million of GDV is worth $6 million-ish in EBITDA. So you've got - there's obviously a delta between the $11.1 million and that $6 million, so we expect volumes to recover this year and certainly in the first couple of months that looks pretty positive, but you've got something to outgrow there on the breakage front and then you've got those costs.

So you know, that's the number, that's how we would see that kind of panning out. So hopefully that answers a couple of questions there around just elevated costs in the result of the matter that aren't one time. So the $11.4 million that we accrue, we certainly consider that one time around legal and advisory and consulting and what have you. The rest will just flow through the P&L as normal.

On the Nuapay piece, yes, I mean it's - I think the thing that attracted us to it in the first place was like us they're a Payments Company. So when you look at a lot of those companies I mentioned before, they're not necessarily payment companies. They're focused on different elements within the industry. So Trustly for example which was due to IPO in April - and that IPO was put on hold because of some regulatory concerns I think that the Swedish regulator had - I think they were going public at an €8 billion valuation - a big chunk of their revenues comes from customer validation.

So if I'm in the US, if I'm Spotify, Netflix, if I'm a subscription company, they'll be paid a fee to validate that Garry Sherriff is in fact Garry Sherriff and it's almost used as a KYC tool, right, because they've got access to identify that you have a bank account, there's money in the bank account, there's cash coming into the bank account, you would have had to have a 100 point ID to get a bank account in the first place. So they're being used as a kind of de facto KYC tool.

Nuapay is a payments business. So there'll be numerous, numerous companies that are in that space. I think it's so big that there's room for many of them. Nuapay's piece and expertise is really on the payment side. So when you look at their customers, in the wake of the deal, some of our investors actually rang some of their largest customers - Worldpay and Elavon and Cybersource which Visa owns. These are some of the largest payment companies in the world and their feedback was, quote, really - really great engineering, really shitty marketing. That was a quote that came back from a customer.

So, we looked at that and said that's the kind of business we want because we want - you don't want it the other way around, great marketing, poor engineering. So the fact that they're an enterprise grade business carrying that much volume today builds a lot of credibility with banks and builds a lot of credibility with merchants. So we think that that's why they'll be successful.

Are they the only one that's going to be successful? No. It's a - going to be an immense market so there will be many players in there. We've got to be smart in how we compete because like I mentioned before, GoCardless, TrueLayer, Modulr - Tink just got bought recently. Trustly still - I mean most of them are private, right? So they're living in private equity land where you can just keep raising money at a high valuation and I think GoCardless's valuation was $1 billion I think that they raised, they raised the money on and don't quote me on it but I think their revenue was - I don't know, it was maybe two or three times what - four times maybe what Sentenial was but the valuation was 15 times what Sentenial is.

So these things are valued differently in private land. Obviously, we're not going to buy Sentenial and hire a hundred salespeople, so we can't compete. We've just got to compete smarter, which is cross-selling Nuapay into the EML customer network and vice versa, where we've got our programs cross-selling into their network and increasing that investment in sales and marketing, but we've got to do it in a smart way is how I would say.. I think they've got pedigree and they've got expertise in payments and they're going to bring a lot of credibility and trust to consumers which - to consumers and to merchants, right. If you're a merchant that's doing $1 billion a year of payments and I'm making a choice between different providers that can provide me with an open banking solution, you'd like to think that the company with - they're now doing €5 billion a month so you'd like to think that the company doing €60 billion a year of payments has a fair bit of credibility going for it, yes?

Garry Sherriff: (RBC, Analyst) Understood and the last one was just the GP margins for 2023 and 2024, the range or how we should think about it?

Tom Cregan: Rob, you want to tackle that?

Rob Shore: Yes, I don't mind taking that one. I think there's a few things impacting our margin right now. Negative interest is a big one in Europe. It's many millions of dollars of negative interest we're incurring on the float. I think by the time you look out to 2023, 2024, you're starting to actually see interest rates, inflationary pressures in Europe drive up those negative interest rates. So that's going to be an immediate benefit to our margins. I wouldn't go and anticipate 3% interest rates in Europe. I'd love it if it happened because we'd make a lot of money out of that, but I certainly see the negative interest rate starting to unwind over that FY23, FY24 kind of period.

You'll see processing come in house, that's $5 million or $6 million of GP savings on the historical run rates. So going forwards a few years, you have the benefit of that coming into 2023, 2024. Then you've got the faster processing. So those items alone are kind of worth 5% increase in GP over sort of that elongated sort of two or three year horizon. So you should be thinking about margins into the low 70s for EML when you're looking sort of that three year out period.

That's pretty good. I mean if you compare that to our competitors, if you look Marqeta's GP margins, Marqeta are sub-40%. So our GP margins are typically very strong with our business model. So that just gives you a bit of a flavour. I don't want to put an exact range on that. We'll obviously do that in a future period but just to give you a flavour as to where margins are heading in the future periods.

Garry Sherriff: (RBC, Analyst) Yes, no, that's perfect. Thank you both. That's exactly what I was looking for, thank you.

Tom Cregan: I think, Garry, that is a key point to make today because the margin number is down and most people attribute gross - lower gross margin to kind of price compression, competitive tension, things like that that are driving it down and typically margins only go one way, but in our case, the bulk of those, the bulk of the gross margin is negative interest rates we can't do anything about in Europe other than trying to recharge it onto our customers which is an option for us but you wouldn't want to do that without really understanding what your competitors were doing, or you effectively try to force your customers into paying you smaller amounts more frequently so you're not holding kind of large balances.

Again, if you look at - gross margin to gross margin and you've got $1 million of that which would be 100% margin being delayed establishment fees in the UK - sorry in Europe and negative interest rates, they're the biggest driver of it. So, it's not competitive tension, or price tension or anything like that. It's - they're the two biggest drivers, the kind of non-BAU if I can call them that. So I think they hopefully change in future periods.

Operator: Your next question is from Tim Plumbe of UBS. Please go ahead.

Tim Plumbe: (UBS, Analyst) Hi guys. I'll just ask two questions if that's all right. Tom, just in relation to the PFS business I think in the pack you've noted 20% growth rate for the PFS business. Can you maybe talk a little bit about the organic growth rate that you experienced in that last quarter, particularly when you weren't onboarding any new customers and what sort of organic growth rate you managed to kind of get out in that last quarter?

Tom Cregan: So we measure that in terms of kind of what we call e-money that was issued, right, so that's - so for Europe I think the last quarter was 14%. I would think it'll be at least that for this current quarter as well because as I said before, the July numbers were up pretty sizeably on the average of kind of - of the last quarter and August is certainly tracking that way too because economic recovery in Europe and just more spend as well as recovery of travel cards and some of those programs.

So yes, I think it's probably similar this quarter and that's without new business. So even without onboarding new customers, which as I said we haven't done for 12 weeks, the underlying spend and revenue is still growing. So that's a positive thing and that - I think for the growth our customers are having in their markets. So that can only be good, but clearly trying to bring on more customers and sign more just requires a bit more certainty.

In the pipeline, I mean two of our biggest opportunities there are not programs that are kind of ready to be signed yet anyway. So sort of got some big opportunities in the pipeline that are not yet at contract signing stage. Therefore, the fact that we're not onboarding doesn't really present a challenge to those programs but it does for ones that we've signed and they're waiting on - we're waiting to get implemented.

We've got to manage this carefully with the Central Bank. We've got a remediation plan that we're working on. That's underway and they are seeing that and when they see that and they see steps being taken, then we'll start putting more business through to be approved but it would be a bit tone deaf I think of us to be working on a remediation plan in the early days and just be submitting new business application after new business after new business because I think thy would say “aren't you listening”?, we want you to focus your energies on the remediation plan. So it's just a balancing act that we're working through but absent launching new programs, yes, 14%, I think 14% was the number for the last quarter and I think it'll be at least that for the first quarter this year.

Tim Plumbe: (UBS, Analyst) Got it and the second question is just about the pipeline that you mentioned. So big uplift in terms of that pipeline despite the fact that you'd had some large wins in there. I think you mentioned $2.7 billion of GDV at maturity and you've flagged the continuation of that 40% win rate, which would kind of imply that you've gone through about $6.8 million of the old pipeline, which is then being replenished and then increased by a further $2.5 billion. So are you able to talk a little bit about those new opportunities that have come back into that sales pipeline and particularly the uplift from a kind of $8 billion to $10.5 billion, is that some of the opportunities from Sentenial or VANS that are driving a big component of that uplift or is that more heavily skewed towards the GPR business?

Tom Cregan: No it's virtually all GPR. So the - it will sound a bit counterintuitive but even though we haven't launched new programs for 12 weeks in Europe that we would still be signing up new business but we are because I think that those customers are - kind of expect that it will just be resolved in time. So, we're still kind of involved in a significant number of kind of new business discussions.

I mean our pipeline, I think we talked in February that our win rate was about 40%. I think it's still in that magnitude, so you've got to look at the $10.8 billion and apply a win rate to that because we're not going to win 313 deals, so you've always got to sensitise that in kind of future volumes. So I think we guided on the prepaid side for GDV to go from almost 20 to go to 24 to 27, somewhere in that ballpark. So within that you'll have existing growth from the programs we've got and then obviously GDV from the programs that have just been implemented as well as GDV from programs that are soon to be implemented.

So you've always got that kind of transition. Within that 10 - within that kind of 10.5, I mean there's two billion-dollar opportunities in there. So the reason that number grows is not necessarily the number of deals increases, it's just the size of those prospects increase. That leaves that but people should still sensitise that to a win rate basis, it's not - we said in February and May, it'd be nice to win 100% but that's how - we're winning 40%, so you've always got to sensitise that pipeline with the win rate number.

Tim Plumbe: (UBS, Analyst) Got it. Thanks guys.

Operator: Your next question is from Ross Barrows of Wilson. Please go ahead.

Ross Barrows: (Wilson, Analyst) Yes great, thank you. Just one question from me. Morning, just on PFS, you just mentioned before - it's kind of an extension question. You mentioned before that you wouldn't apply to the regulator for new programs under the current conditions but just to get a bit granular on that, are you still able to develop new programs, work with new and prospective customers, get it to a point where you're obviously evolving the program so that when the restrictions are lifted, then they can be launched as quickly as possible? Just want to make sure I get some clarity around the ability to continue to do it in a non-public way or I guess privately with your customers but not I guess putting that to the regulator.

Tom Cregan: Yes, no, the answer is yes. Yes, we're working on programs, working with customers. Nothing's changed from that perspective. So all that is still occurring and then as I said, once we've gone a little bit further into the remediation plan and the CBI is confident that the dates on that will be met, then yes our intention is to start resubmitting applications.

One thing that people should know and I can't talk - I don't know whether the FCA is the same, so Rob might know but I mentioned at the start of the call that the sales time lag of getting contracts signed and then having them launch in May, because your customer has development work to do and you've got regulatory approvals to do, I think under the CBI rules, they've got 90 days to approve or deny applications anyway. So,b customers are aware of that because they know that there's a 90 day period for the Central Bank to approve new business. Again, I can't remember what the one is in the UK.

So we're basically 90 days in. We're 12 weeks in from where we were. So if we just keep submitting new applications, all that will happen is the pool of those applications will just balloon. So there are - applications are already with the CBI, we're obviously signing new business. Then the intent absolutely is to submit new business programs for approval, for sure. So there's nothing to stop us doing that.

Ross Barrows: (Wilson, Analyst) That's great, thank you.

Operator: Your next question is from William Cunning of Carter Bar Securities. Please go ahead.

William Cunning: (Carter Bar Securities, Analyst) Hi, Tom, Rob. Thanks for the additional colour. Just I'm conscious of time so I'll just keep it quick. Just firstly could you provide maybe just a little bit more colour around what you're seeing in terms of competition, specifically maybe in the high growth areas, sort of US gaming and also in the digital banking spaces? Just whether there's been a sort of uplift in competition there or whether you're seeing any sort of pressure there?

Tom Cregan: I think in the gaming space, there was us in the US and there was Sightline who were - but predominantly their business model and I think they've continued to progress that pretty well. In digital banking I don't think we've seen any new kind of entrants change the kind of competitive dynamics, so I think it's still the same customers - the same competitive dynamic, I don't think it's really changed much for us.

William Cunning: (Carter Bar Securities, Analyst) Yes, okay great, thanks for that. Just on the additional sort of compliance governance and controls associated with CBI, obviously you guys have a lot in the back end in terms of the security and the governance for the business but does any of that work push you into any sort of higher tiers which would give you access to any sort of other business opportunities? Or is it all just sort of just totally related to the CBI?

Tom Cregan: Could you say again? Just want to make sure I understand that question.

William Cunning: (Carter Bar Securities, Analyst) Yes, just whether any of the compliance frameworks and the governance that you guys are putting in gives you any benefit in terms of extra customers or any other segments that you could now go after that maybe were not available beforehand?

Tom Cregan: Yes okay, no, I don't think so. No, it's - so when you look at some of those resources and the cost of some of those resources, our view is you want to automate those things as much as possible, right? So hence Predator and the kind of KYB tools going in and what have you, but part of that cost base is having INEDs on the board of that business, right? I mean they're going to be paid much like a director of the EML Group is going to be paid because as I said before, the Central Bank sees those directors as EML, for want of a better word, right?

William Cunning: (Carter Bar Securities, Analyst) Yes.

Tom Cregan: So you're now paying for roles that historically you wouldn't have paid for. So if you looked at that business 12 months ago, PCSIL had a board, most of whom were the founders. So you had Valerie Moran, you had Noel Moran, you had Lee Britton and I think there might have been one independent who was paid - I'm not even sure he was paid. So, you had four directors and so that met all the regulatory requirements, but they were unpaid.

Fast forward to now, where there's a preference for both executive but independent directors and for those directors to be paid akin to what they would be paid for another director's role. So you've got the same four roles, there are different four people but now it might be costing you $500,000 a year. Because if you're paying €50,000, €60,000, you've got $100,000 plus per director. So you've got - part of that is the cost. The cost isn't really in IT remediation or IT investment or other things like that but - and then I think the CBI, most regulator would look at our size and just believe that the resources have got to be the right size I guess for not only where you are today but where you think the business is going to go in one and two and three years' time.

So, part of the costs are driven by increased resources that you're going to put into specific areas. So it's largely - I would say it's largely governance and resourcing and documentation and methodology and that's where a lot of the spend is going to be, a lot of the resources will be.

William Cunning: (Carter Bar Securities, Analyst) Right okay that makes sense. Those were my two. Thank you very much.

Tom Cregan: Thank you.

Operator: Your next question is from Ron Shamgar of TAMIM. Please go ahead.

Ron Shamgar: (TAMIM, Analyst) Hi Rob, hi Tom.

Tom Cregan: Hi Ron.

Ron Shamgar: (TAMIM, Analyst) A couple of quick ones. Just on the business pipeline, that $10 billion, how much does that include sort of potential Visa scheme programs or it doesn't include any Visa program?

Tom Cregan: I don't know the answer to that off the top of my head so I'd have to look into that, but when we look at the pipeline, I'd look at it just in a general sense so I haven't taken the time to split it out so I might need to get back to you on that one.

Ron Shamgar: (TAMIM, Analyst) Okay. It's more the question in terms of with you guys launching on the Visa network, does that potentially sort of double the size of the opportunities for new business?

Tom Cregan: Oh I see what you mean. Look, I don't know about double, but I think where - at the moment there would be a lot of that business that we don't see. So if a company - I mean the reason for building the Visa integration was a year ago we said that you've got Visa and Mastercard have an arms race for want of a better word, and they will incentivise through various means companies to choose one scheme over the other. Historically, for us up until probably a year ago, customers were pretty agnostic. So we would be talking to a company, wouldn't matter what industry they were in and Visa and Mastercard, they saw us as quite constitutable right, so they were like oh well, I'm not going to be that fussed one way or another.

Go forward and the times have changed, and you do have the schemes competing upstream. So by the time a company comes to you, they've already decided to - that it's Visa or Mastercard or other that they're going to go with. So I would just say that there would have been a lot of business that never came our way because we were never even capable. So, if a company in Australia had chosen Visa and we're in discussion with Visa, Visa would send that to the companies in the region who process for Visa and that wouldn't have been us. So, I can't say double, but I can say that we would never have even been called in a lot of those cases.

So it can only be upside for us which is why we're doing it. I think that the pool can only logically get bigger. I don't think it doubles but it can only get bigger.

Ron Shamgar: (TAMIM, Analyst) Okay and then in terms of operating EBITDA margins, this year was 27%. If we take the top end of the guidance range for next year, it's 25.5% EBITDA margin. If we excluded sort of the revenue from Sentenial, you're still at 27% EBITDA margin. So the question is, when does sort of operating leverage kick in with EML? I mean you know, if you are adding sort of say $50 million of revenue a year and you get to say $400 million revenue three years from now, is this sort of a 30% EBITDA margin business? Can you get to 35%? When does operating leverage really kick?

Tom Cregan: Yes, that's a good question. I think we haven't made that an easy thing for investors to understand because of the impacts of acquisition. So we had EML gross margins pre-PFS of I think roughly 75% and we had EBITDA margins that were in that same kind of 30% range. You then acquire something like PFS to those margins in the high 50s, so it changes the gross margin mix, changes your EBITDA percentage mix. You're growing in an absolute sense, revenue and EBITDA and cash flow but you're buying businesses with different margin footprints. So it takes time for that to kind of wash through.

Sentenial are the same, right? Because we've got revenue but no real EBITDA accretion that we'll see in FY22. So it's a good question. I don't think we've made it easy for people to understand. My view is - it's my personal view - is that if you look at the companies that are really highly rated globally, companies in payments so looking at the Adyens and the Stripes and you know, sort of these companies, they're much more of solution in a box, right? So, I mean Adyen is Adyen and you can set up your ecommerce platform and be processing, so it's not - it's a simpler business which is why it's so good but I think their EBITDA margins are in the 40s, because of just the change in business model.

I would love our EBITDA margins to get to the 40s. I think that at least mid-30s, but somewhere in that mid-30s to 40s but in order to do that, we've got to let some of these acquisitions flow through and some of that takes time. So as Rob said before, if you took - if you fast-forwarded two years and you take out $6 million of processing costs and a million of faster payments and $2 million, $3 million of negative interest rates, those things make a big difference to gross margins and they make a big difference to EBITDA margins.

We're going to be judged on that, rightly so. I mean that's - these companies should be built to scale. So I think you know, 35%, 40% would be aspirational and I think mid-30s is where it should get to. Now how many years that is, I think we've just got to do a bit more analysis on that and look at how those big ticket items over the next couple of years will kind of affect it.

Ron Shamgar: (TAMIM, Analyst) Yes, okay, and just last one. I saw New South Wales Transit their logo but did you guys actually sign the deal or is it still at pilot stage?

Tom Cregan: Pilot stage I don't think we've made any public commentary on it but I think the - I think the actual consumer response and so on was pretty - was really good so I think it was very positive. So, I can't say at this point that there's any commitment to necessarily expand that but we've obviously put - pardon me - put ourselves in the best position if it does get expanded. Although I think in your neck of the woods, nothing - there's no trains or buses anyway at the moment, is there?

Ron Shamgar: (TAMIM, Analyst) Yes, yes. Again thanks.

Operator: We have reached the end of the question and answer session. I will now hand back to Mr Cregan for closing remarks.

Tom Cregan: Thanks, Operator. Yes look, thanks, everyone, for turning up. This was a longer call than we would normally have but a lot of moving parts there and I think we've always been one for trying to be as transparent as possible. So some of these things have flow-on effects if you like. So obviously the CBI is an important matter that we need to communicate as best we can to shareholders and then that obviously flows through to costs that we've incurred which flows through to how that adjusts future earnout periods which flow through to goodwill. So there's a number of kind of cascading events here. We just wanted to do as a good job we could to communicate that.

I think the message from me is that the underlying business last year performed strongly and performed as we expected to, which we are pretty proud of and I think obviously that the receipt of the 'Minded to' letter was a pretty big disruptive event for us and something we're spending a lot of time on. I would say that the early trading in FY22 is pretty promising, I think. We're seeing recovery in gift and incentive as markets open, first couple weeks of August are pretty decent.

So I think that our - our guidance range is really driven by a need to kind of correct the differences I think between analyst consensus and what our numbers are but I would make the point that it's one month into the year, so we'll - people would expect us to provide a wide range rather than not and then be in a position where that gets missed and be penalised in the market down the track. So I think people should just accept that for what it is and we'll provide more colour on that in November when we've got the benefit of four months' trading behind us and a bit more clarity of how some of these other events are going.

They're the messages I'd leave you with and with that, Operator, thank you very much for holding the call today.

Operator: That does conclude our conference for today. Thank you for participating. You may now disconnect.

End of Transcript