

# EML Payments

Corporate update

## Major source of losses stemmed

Software and comp services

As part of its strategy to focus on profitable, cash-generative businesses, the boards of EML Payments and PFS Card Services Ireland Limited (PCSIL) have decided to wind down the PCSIL business. This removes a source of considerable cash burn and management distraction and leaves the group better positioned to support the Gifting and the Australian and UK General Purpose Reloadable (GPR) businesses. The strategic review is ongoing and management noted it had received several expressions of interest for Sentenial. FY24 guidance given in November is maintained despite the PCSIL liquidation. We have revised our forecasts to reflect the November trading update and the PCSIL liquidation, upgrading our underlying EBITDA forecasts by 14.9% in FY24 and 6.0% in FY25.

5 February 2024

**Price** **A\$0.83**

**Market cap** **A\$311m**

€0.60/A\$

Net debt (A\$m) at end FY23 20.4

Shares in issue 374.9m

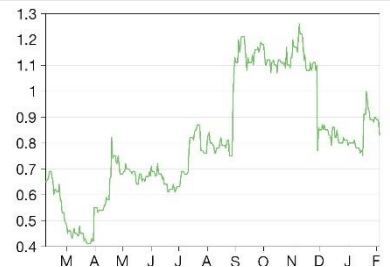
Free float 93%

Code EML

Primary exchange ASX

Secondary exchange N/A

### Share price performance



% 1m 3m 12m

Abs 3.1 (31.3) 28.9

Rel (local) 2.3 (38.5) 25.6

52-week high/low A\$1.26 A\$0.41

### Business description

EML Payments is a payment solutions company managing thousands of programmes across 32 countries in Europe, North America and Australia. It provides payment solutions for banking, credit and disbursement services, earned wage access, gifts, incentives and rewards, and open banking and FX.

### Next events

H124 results February 2024

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**EML Payments is a research client of Edison Investment Research Limited**

Year end	Revenue (A\$m)	PBT* (A\$m)	NPATA** (A\$m)	Diluted EPS* (c)	DPS (c)	P/E (x)	EV/EBITDA*** (x)
06/22	232.4	16.0	19.3	3.4	0	24.4	6.5
06/23	254.2	(22.8)	(27.0)	(4.9)	0	N/A	8.9
06/24e	251.0	25.1	26.5	5.2	0	15.9	6.1
06/25e	242.9	37.3	31.2	7.8	0	10.7	5.5

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\*NPATA, net profit after tax, excluding acquisition-related costs. \*\*\*Based on underlying EBITDA.

## Major progress in restructuring the group

With the announcement that it has decided to wind down the European GPR business (PCSIL) using a court appointed liquidator, EML has taken a major step forward in its quest to return the group to profitable growth and cash generation. The business will be deconsolidated from 16 January 2024, with an estimated further cash outlay of A\$20m to settle intercompany loans and a non-cash write-down of A\$25m the final amounts to affect EML's financials.

## Upgrading forecasts on trading and PCSIL wind down

For the four months to 31 October 2023, EML reported gross debit volume (GDV) growth of 55% y-o-y, revenue growth of 39% and underlying EBITDA growth of 279%. The company expects to generate underlying EBITDA in the range of A\$52–58m for FY24 (+40–56% y-o-y) and to be broadly cash flow neutral, despite c A\$20m cash burn expected for PCSIL. We have upgraded our forecasts to reflect the trading update and the PCSIL liquidation, resulting in an FY24 underlying EBITDA forecast in the middle of the A\$52–58m guidance range.

## Valuation: PCSIL liquidation removes major block

After the November 2023 AGM, the stock declined 30% to 77c, in our view reflecting concerns about the timing and cost of the Irish regulatory remediation process. Since the liquidation announcement the stock has gained 11% but continues to trade at a material discount to global payment processor and prepaid card peers on an EV/sales and EV/underlying EBITDA basis. Evidence of positive progress with the UK regulator and growth in the remaining business will be key to reduce this discount, with the potential sale of Sentenial another possible trigger for upside.

## Closing down PCSIL

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On 17 January, EML announced that it had decided to put PFS Card Services Ireland Limited into liquidation. This follows a multi-year period of trying to remediate the business to meet the compliance requirements of the Irish regulator, the Central Bank of Ireland (CBI). The company made this decision for a number of reasons (more detail below).

PCSIL will be deconsolidated from the group from 16 January 2024. EML's remaining cash exposure to the business will be A\$20m in intercompany loans, equivalent to the expected cash burn of PCSIL in FY24. This includes the operating result of the business as well as the payment of one-off expenses that had previously been provided for in relation to the remediation. These payments are expected to be made towards the end of the liquidation process in nine to 12 months. In FY24, the group will also make a one-off non-cash A\$25m impairment of the net assets of PCSIL and any associated intangible assets.

## Strategic review ongoing

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Prior to its AGM on 29 November, EML provided an update on progress with its strategic review. When we last wrote post the company's FY23 results, EML was focused on determining the stand-alone profitability and cash flow performance of each business line, as well as reviewing the regulatory position, prospects for growth and EML's suitability as owner.

EML decided to focus on those business lines that are currently profitable and generate positive cash flow, with the potential for that to continue, namely Gifting, Australia GPR and UK GPR (PFSL UK). The company considers that each of these businesses has:

- strong EBITDA margins and free cash flow conversion;
- long-term client contracts;
- meaningful commercial footprints and credibility in attractive industry verticals;
- a reduced regulatory risk profile and associated costs; and
- a platform from which to build increased shareholder value over time with refreshed leadership and the potential for targeted investment for growth.

Two parts of the group do not fit the criteria: the European GPR business (PCSIL) and Sentential.

## PCSIL: Court approves appointment of liquidator

In November 2023, the company confirmed that PCSIL was unlikely to reach break-even in FY24 and at that point estimated that cash burn was likely to be c A\$20m in FY24 with elevated cash burn in the medium term. In September 2023, two directors of PCSIL resigned; on 28 November the CBI provided regulatory permission for the appointment of two EML group directors and two new independent non-executive directors. With the new PCSIL board in place, the company was able to complete a detailed review into the business and concluded that liquidation was the best option for PCSIL and the group. The reasons for this include:

- ongoing losses and substantial cash burn;
- deteriorating trading performance from some of PCSIL's key customers who account for c 70% of PCSIL revenue, which could not be offset by new customers due to the CBI-imposed growth cap;
- continued challenges with the effectiveness and scheduling of regulatory remediation works with an uncertain completion date;

- severe challenges with staff retention and attracting new employees;
- limited commercial attractiveness to new customers due to challenged operating environment; and
- significant and unsustainable capex requirements for IT and operational systems to ensure they satisfy regulatory requirements, operational efficiency and commercial competitiveness.

PCSIL engaged with the CBI, and with approval from the EML board, made a successful application to the High Court of Ireland for the appointment of a provisional liquidator. The court appointed Interpath Advisory to this role effective 15:35 GMT on 17 January 2024. Interpath is now in control of the entity, its day-to-day operations and its winddown.

## Sentential: Expressions of interest received

The company has received several expressions of interest from third parties for Sentential. The company is engaging with these potential buyers, although there is no guarantee that a disposal will happen. At the same time, the company is strengthening the business's commercial and operational frameworks with the goal of reaching break-even in H224.

As a reminder, EML paid cash of A\$63m and issued shares worth A\$37m to acquire Sentential on 1 October 2021. At the end of FY23, it also owed a contingent consideration of A\$7m.

Management noted that the strategic review for the group continues.

## Trading update

In November, EML provided a trading update for the four months ended 31 October.

<b>Exhibit 1: Trading update for four months to 31 October 2023</b>			
<b>A\$m</b>	<b>4M24</b>	<b>4M23</b>	<b>y-o-y</b>
GDV	48,659.8	31,359.4	55%
Revenue	92.9	66.6	39%
Underlying EBITDA	12.5	3.3	279%
% of FY23 GDV		24%	
% of FY23 revenue		26%	
% of FY23 underlying EBITDA		9%	

Source: EML Payments

GDV increased 55% y-o-y for the four-month period – we assume the majority of this increase is from the Sentential business, where GDV is not always directly linked to revenue. The company noted that recurring revenue increased 19% y-o-y with the remainder of the increase due to higher interest earned on float. Base rates for euro, sterling, US dollar and Australian dollar float balances were significantly higher in H124 compared to H123 (average increase ranges from 77% to 250%) and are also higher for H124 compared to H223 (average increase ranges from 10% to 40%). In FY23, underlying EBITDA for the first four months of the year made up only 9% of full-year EBITDA compared to c 25% for GDV and revenue, reflecting the impact that 100% gross margin interest income has on EBITDA (interest income in H123 was A\$9.4m vs A\$23.7m in H223).

## Outlook and changes to forecasts

In November the company provided guidance for FY24, expecting underlying EBITDA in the range of A\$52–58m (+40–56% y-o-y). This implies that 4M24 underlying EBITDA will contribute 22–24% of FY24e underlying EBITDA. The company expects to be broadly cash flow neutral in FY24, with a c A\$20m cash outflow for PCSIL broadly offset by cash generated by the rest of the business.

Management has confirmed that the liquidation of PCSIL is not expected to have an impact on the guidance given above. We assume this means that PCSIL's underlying EBITDA contribution in H224 would have been close to break-even, before any one-off charges relating to the remediation. Going forward, the liquidation of PCSIL stops a major source of operating losses and cash burn.

We estimate that the Sentenial business requires a much lower level of overheads and is closer to break-even, so disposal would have a more limited positive effect on profitability.

We have revised our forecasts to reflect higher GDV for Digital Payments and higher interest income and have stripped out PCSIL from H224 onwards. This results in an upgrade to our underlying EBITDA forecast, which now sits towards the middle of the guidance range.

We continue to forecast repayment of the loan notes relating to the acquisition of PFS (A\$20m in FY24 and A\$20m in FY25) as well as payment of the A\$7m in contingent consideration for Sentenial in FY24.

**Exhibit 2: Changes to forecasts**

		FY24e Old	FY24e New	Change	y-o-y	FY25e Old	FY25e New	Change	y-o-y
<b>Revenues</b>	<b>A\$m</b>	<b>277.8</b>	<b>251.0</b>	<b>-9.6%</b>	<b>-1.2%</b>	<b>302.7</b>	<b>242.9</b>	<b>-19.7%</b>	<b>-3.2%</b>
Gross profit	A\$m	190.4	176.2	-7.5%	6.7%	207.4	172.9	-16.6%	-1.9%
Gross margin		68.5%	70.2%	1.6%	5.2%	68.5%	71.2%	2.7%	1.0%
Underlying gross profit	A\$m	190.4	176.2	-7.5%	1.1%	207.4	172.9	-16.6%	-1.9%
Underlying gross margin		68.5%	70.2%	1.6%	1.6%	68.5%	71.2%	2.7%	1.0%
EBITDA	A\$m	35.4	46.5	31.2%	-1892.1%	56.3	59.7	6.0%	28.5%
EBITDA margin		12.8%	18.5%	5.8%	19.5%	18.6%	24.6%	6.0%	6.1%
Add back one-off costs	A\$m	12.0	8.0	N/A	N/A	0.0	0.0	N/A	N/A
<b>Underlying EBITDA</b>	<b>A\$m</b>	<b>47.4</b>	<b>54.5</b>	<b>14.9%</b>	<b>47.0%</b>	<b>56.3</b>	<b>59.7</b>	<b>6.0%</b>	<b>9.6%</b>
<b>Underlying EBITDA margin</b>		<b>17.1%</b>	<b>21.7%</b>	<b>4.6%</b>	<b>7.1%</b>	<b>18.6%</b>	<b>24.6%</b>	<b>6.0%</b>	<b>2.9%</b>
Normalised operating profit	A\$m	17.2	28.7	67.2%	-249.7%	36.5	40.9	11.9%	42.4%
Normalised operating margin		6.2%	11.4%	5.3%	19.0%	12.1%	16.8%	4.8%	5.4%
Reported operating profit	A\$m	(2.3)	(15.8)	577.3%	-94.8%	17.0	21.4	25.6%	-235.3%
Reported operating margin		-0.8%	-6.3%	-5.5%	112.5%	5.6%	8.8%	3.2%	15.1%
Normalised PBT	A\$m	13.6	25.1	84.9%	-210.4%	32.9	37.3	13.2%	48.5%
Reported PBT	A\$m	(5.9)	(19.4)	227.7%	-93.1%	13.4	17.8	32.5%	-191.8%
Normalised net income	A\$m	10.9	20.1	84.9%	-210.4%	26.3	29.8	13.2%	48.5%
<b>NPATA</b>	<b>A\$m</b>	<b>12.3</b>	<b>26.5</b>	<b>116.0%</b>	<b>-198.2%</b>	<b>27.7</b>	<b>31.2</b>	<b>12.6%</b>	<b>17.9%</b>
Add back one-off costs	A\$m	9.6	6.4			0.0	0.0		
<b>Underlying NPATA</b>	<b>A\$m</b>	<b>21.9</b>	<b>32.9</b>	<b>50.4%</b>	<b>572.0%</b>	<b>27.7</b>	<b>31.2</b>	<b>12.6%</b>	<b>-5.0%</b>
Reported net income	A\$m	(4.7)	(15.5)	227.7%	-94.6%	10.7	14.2	32.5%	-191.8%
Normalised basic EPS	A\$	0.03	0.05	84.7%	-210.3%	0.07	0.08	13.1%	48.4%
Normalised diluted EPS	A\$	0.03	0.05	84.7%	-207.5%	0.07	0.08	13.1%	48.4%
Reported basic EPS	A\$	(0.01)	(0.04)	227.4%	-94.6%	0.03	0.04	32.2%	-191.7%
NPATA/share	A\$	0.03	0.07	115.8%	-198.1%	0.07	0.08	12.4%	17.8%
Dividend per share	A\$	0.00	0.00	N/A	N/A	0.00	0.00	N/A	N/A
Net debt/(cash)	A\$m	28.7	28.1	-2.1%	37.9%	6.3	0.8	-88.1%	-97.3%
GDV	A\$bn	157.4	164.8	4.7%	27.2%	179.8	174.8	-2.8%	6.1%
Yield	bp	18	15	-2	-4	17	14	-3	-1

Source: Edison Investment Research

**Exhibit 3: Changes to divisional forecasts**

		FY24e	FY24e			FY25e	FY25e		
		Old	New	Change	y-o-y	Old	New	Change	y-o-y
<u>GDV</u>									
Gifting	A\$bn	1.8	1.8	0%	10%	2.0	2.0	0%	10%
GPR	A\$bn	13.4	10.9	-19%	-15%	14.5	9.5	-35%	-13%
Digital Payments	A\$bn	142.1	152.1	7%	32%	163.3	163.3	0%	7%
<u>Revenue</u>									
Gifting	A\$m	81.8	84.6	3%	13%	88.0	91.0	3%	8%
GPR	A\$m	169.7	140.1	-17%	-12%	184.8	121.9	-34%	-13%
Digital Payments	A\$m	26.1	26.1	0%	20%	29.7	29.8	0%	14%
<u>Yield</u>									
Gifting		4.45%	4.60%	0.2%	0.14%	4.35%	4.50%	0%	-0.10%
GPR		1.27%	1.29%	0.0%	0.05%	1.28%	1.29%	0%	0.00%
Digital Payments		0.02%	0.02%	0.0%	0.00%	0.02%	0.02%	0%	0.00%
<u>Gross profit</u>									
Gifting	A\$m	66.3	68.7	4%	13.7%	71.3	73.9	4%	7.5%
GPR	A\$m	101.8	85.1	-16%	-8.9%	110.9	73.8	-33%	-13.4%
Digital Payments	A\$m	22.2	22.3	0%	88.0%	25.2	25.2	0%	13.2%
<u>Gross margin</u>									
Gifting		81.1%	81.3%	0.2%	0.2%	81.1%	81.2%	0%	-0.1%
GPR		60.0%	60.8%	0.8%	1.8%	60.0%	60.5%	1%	-0.3%
Digital Payments		85.3%	85.3%	0.0%	30.6%	84.7%	84.6%	0%	-0.7%

Source: Edison Investment Research

**Exhibit 4: Financial summary**

	A\$m	2019	2020	2021	2022	2023	2024e	2025e
30-June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>								
Revenue		97.2	121.0	192.2	232.4	254.2	251.0	242.9
Cost of Sales		(24.2)	(32.9)	(63.8)	(74.6)	(89.1)	(74.9)	(70.0)
Gross Profit		73.0	88.1	128.4	157.8	165.1	176.2	172.9
EBITDA		29.7	32.5	42.2	34.3	(2.6)	46.5	59.7
Normalised operating profit		25.6	22.4	31.6	18.4	(19.2)	28.7	40.9
Amortisation of acquired intangibles		(7.5)	(11.1)	(20.2)	(16.5)	(18.2)	(17.0)	(17.0)
Exceptionals		(3.0)	(13.6)	(11.2)	1.4	(262.9)	(25.0)	0.0
Share-based payments		(4.2)	(6.1)	(5.0)	(3.0)	(1.8)	(2.5)	(2.5)
Reported operating profit		10.9	(8.5)	(4.8)	0.3	(302.0)	(15.8)	21.4
Net Interest		(0.0)	(0.7)	(1.4)	(2.4)	(3.6)	(3.6)	(3.6)
Joint ventures & associates (post tax)		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals		(1.8)	1.3	(17.1)	1.8	23.9	0.0	0.0
Profit Before Tax (norm)		25.6	21.6	30.2	16.0	(22.8)	25.1	37.3
Profit Before Tax (reported)		9.0	(7.9)	(23.3)	(0.3)	(281.8)	(19.4)	17.8
Reported tax		(0.6)	0.7	(5.4)	(4.5)	(3.1)	3.9	(3.6)
Profit After Tax (norm)		20.5	17.2	24.1	12.8	(18.2)	20.1	29.8
Profit After Tax (reported)		8.5	(7.1)	(28.7)	(4.8)	(284.8)	(15.5)	14.2
Minority interests		(0.2)	0.0	0.0	0.0	0.0	0.0	0.0
Discontinued operations		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net income (normalised)		20.3	17.2	24.1	12.8	(18.2)	20.1	29.8
Net income (reported)		8.3	(7.1)	(28.7)	(4.8)	(284.8)	(15.5)	14.2
Basic ave. number of shares outstanding (m)		249	304	360	371	374	374	375
EPS - basic normalised (A\$)		0.081	0.056	0.067	0.035	(0.049)	0.054	0.080
EPS - normalised fully diluted (c)		7.812	5.489	6.579	3.398	(4.869)	5.234	7.766
EPS - basic reported (A\$)		0.033	(0.023)	(0.080)	(0.013)	(0.762)	(0.041)	0.038
Dividend (A\$)		0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)		36.9	24.4	58.9	20.9	9.4	(-1.2)	(-3.2)
Gross Margin (%)		75.1	72.8	66.8	67.9	64.9	70.2	71.2
EBITDA Margin (%)		30.6	26.9	21.9	14.8	-1.0	18.5	24.6
Normalised Operating Margin		26.4	18.5	16.4	7.9	-7.5	11.4	16.8
<b>BALANCE SHEET</b>								
Fixed Assets		162.9	872.1	685.3	827.3	581.3	577.4	538.6
Intangible Assets		104.6	371.7	350.1	448.5	192.5	147.7	127.7
Tangible Assets		5.4	14.6	11.2	12.7	10.6	10.8	10.8
Investments & other		53.0	485.8	323.9	366.1	378.3	418.9	400.1
Current Assets		313.8	1,008.6	1,603.5	1,855.1	2,413.2	2,142.5	2,014.3
Stocks		18.2	22.3	16.4	21.5	27.5	28.5	28.2
Debtors		14.4	21.7	22.0	35.8	38.9	37.8	36.7
Cash & cash equivalents		33.1	118.4	141.2	73.7	71.4	44.1	22.2
Other		248.2	846.2	1,424.0	1,724.1	2,275.5	2,032.2	1,927.3
Current Liabilities		(299.0)	(1,357.8)	(1,792.8)	(2,100.1)	(2,709.9)	(2,516.7)	(2,332.1)
Creditors		(33.9)	(47.5)	(62.9)	(65.7)	(82.3)	(65.5)	(58.7)
Tax and social security		(0.8)	(2.6)	(6.0)	(2.8)	(3.1)	(3.1)	(3.1)
Short term borrowings		(15.0)	0.0	(1.4)	(1.8)	(23.0)	(72.2)	(22.9)
Other		(249.4)	(1,307.7)	(1,722.5)	(2,029.8)	(2,601.5)	(2,375.9)	(2,247.4)
Long Term Liabilities		(33.5)	(82.6)	(81.1)	(145.2)	(110.1)	(41.7)	(42.5)
Long term borrowings		0.0	(35.8)	(36.9)	(81.6)	(68.8)	0.0	0.0
Other long term liabilities		(33.5)	(46.8)	(44.2)	(63.6)	(41.3)	(41.7)	(42.5)
Net Assets		144.2	440.2	414.9	437.1	174.6	161.5	178.3
Minority interests		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Shareholders' equity		144.2	440.2	414.9	437.1	174.6	161.5	178.3
<b>CASH FLOW</b>								
Op Cash Flow before WC and tax		28.4	31.2	41.2	33.3	(2.3)	46.5	59.7
Working capital		2.0	3.6	31.7	(68.4)	9.0	(32.7)	(10.2)
Exceptional & other		(0.7)	(12.7)	(17.3)	0.4	(2.6)	0.0	0.0
Tax		(0.6)	0.7	(5.4)	(4.5)	(3.1)	3.9	(3.6)
Net operating cash flow		29.2	22.8	50.2	(39.1)	0.9	17.8	46.0
Capex		(5.8)	(11.0)	(12.6)	(14.1)	(11.7)	(12.3)	(12.9)
Acquisitions/disposals		(44.0)	(142.5)	(3.5)	(57.1)	10.9	(7.0)	0.0
Net interest		(0.0)	(0.7)	(1.4)	(2.4)	(3.6)	(3.6)	(3.6)
Equity financing		0.4	240.8	0.6	0.0	0.0	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other		(0.4)	(7.0)	(11.0)	(1.9)	(2.2)	(2.2)	(2.2)
Net Cash Flow		(20.6)	102.3	22.2	(114.6)	(5.7)	(7.3)	27.4
Opening net debt/(cash)		(39.0)	(18.1)	(82.5)	(103.0)	9.7	20.4	28.1
FX		(0.3)	(2.0)	0.6	(1.1)	3.4	0.0	0.0
Other non-cash movements		0.0	(35.8)	(2.4)	3.0	(8.4)	(0.5)	0.0
Closing net debt/(cash)		(18.1)	(82.5)	(103.0)	9.7	20.4	28.1	0.8

Source: EML Payments, Edison Investment Research

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