

EML Payments

Cutting the final link to PFS vendors

Revised deferred consideration

Software and comp services

EML Payments has entered into an agreement to settle all the outstanding deferred consideration payments relating to the acquisition of Prepaid Financial Services Group (PFS) for £15.0m/A\$28.8m, which represents a £7.9m/A\$15.2m discount to the originally agreed amount. This agreement concludes all outstanding actual and potential liabilities relating to the PFS acquisition in 2020. Combined with the agreed sale of Sentenial for A\$54m, this substantially strengthens EML's balance sheet and simplifies the group's structure.

Year end	Revenue (A\$m)	EBITDA* (A\$m)	PBT** (A\$m)	Diluted EPS** (c)	DPS (c)	P/E (x)	EV/EBITDA* (x)
06/22	232.4	51.2	16.0	3.4	0.0	30.2	7.9
06/23	254.2	37.1	(22.8)	(4.9)	0.0	N/A	10.9
06/24e	262.1	55.7	27.5	5.7	0.0	17.9	7.3
06/25e	238.0	62.5	41.4	8.6	0.0	11.9	6.5

Note: *Underlying. **PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Deferred consideration payment finalised

The EML acquisition of PFS in 2020 included deferred consideration in the form of loan notes of £20m plus accrued interest, payable in two instalments on 30 June 2024 and 30 June 2025. At full term, the debt would have been worth £22.9m/A\$44.0m with the first tranche payable of £11.25m/A\$21.6m. In the new agreement, EML will settle the entire loan note liability for £15.0m/A\$28.8m by 31 July 2024, funded from EML's cash balance. This represents a £7.9m/A\$15.2m discount to the originally agreed amount. All historical earnout arrangements are confirmed at zero (this was already the position on the balance sheet).

Forecasts revised to reflect lower payout

We have revised our forecasts to reflect full payment of the final amount in early H125. We have split the discount of A\$15.2m as a one-off credit to financial expense of A\$13.65m in H224 and reduced interest expense by A\$1.55m in FY25. This reduces our net debt forecast from A\$22.6m to A\$11.7m at the end of FY24 and increases our net cash forecast from A\$3.8m to A\$16.0m at the end of FY25. We have not yet factored in the Sentenial disposal as this is subject to regulatory approval from the UK and French authorities.

Valuation: Obstacles removed

The stock continues to trade at a material discount to global payment processor and prepaid card peers on an EV/sales and EV/underlying EBITDA basis, despite several obstacles to profitable growth having been removed. In our view, regulatory approval of the Sentenial disposal, evidence of positive progress with the UK regulator and growth in the remaining business will be key to reducing this discount.

12 April 2024

Price **A\$1.025**

Market cap **A\$384m**

£0.52:A\$1

Net debt (A\$m) at end H124 13.7

Shares in issue 374.9m

Free float 93%

Code EML

Primary exchange ASX

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (2.9) 28.8 79.5

Rel (local) (4.2) 23.5 66.8

52-week high/low A\$1.27 A\$0.56

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

FY24 results August

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Changes to forecasts

Exhibit 1: Changes to forecasts									
		FY24e				FY25e			
		Old	New	Change	y-o-y	Old	New	Change	y-o-y
Revenues	A\$m	262.1	262.1	0.0%	3.1%	238.0	238.0	0.0%	-9.2%
Gross profit	A\$m	195.2	195.2	0.0%	18.3%	173.9	173.9	0.0%	-10.9%
Gross margin		74.5%	74.5%	0.0%	9.6%	73.1%	73.1%	0.0%	-1.4%
Underlying gross profit	A\$m	195.2	195.2	0.0%	12.0%	173.9	173.9	0.0%	-10.9%
Underlying gross margin		74.5%	74.5%	0.0%	6.0%	73.1%	73.1%	0.0%	-1.4%
EBITDA	A\$m	49.7	49.7	0.0%	-2016.3%	62.5	62.5	0.0%	25.7%
EBITDA margin		19.0%	19.0%	0.0%	20.0%	26.3%	26.3%	0.0%	7.3%
Add back one-off costs	A\$m	6.0	6.0	N/A	N/A	0.0	0.0	N/A	N/A
Underlying EBITDA	A\$m	55.7	55.7	0.0%	50.3%	62.5	62.5	0.0%	12.2%
Underlying EBITDA margin		21.3%	21.3%	0.0%	6.7%	26.3%	26.3%	0.0%	5.0%
Normalised operating profit	A\$m	32.5	32.5	0.0%	-269.7%	44.8	44.8	0.0%	37.7%
Normalised operating margin		12.4%	12.4%	0.0%	20.0%	18.8%	18.8%	0.0%	6.4%
Reported operating profit	A\$m	(8.3)	(8.3)	0.0%	-97.3%	32.3	32.3	0.0%	-491.5%
Reported operating margin		-3.1%	-3.1%	0.0%	115.7%	13.6%	13.6%	0.0%	16.7%
Normalised PBT	A\$m	27.5	27.5	0.0%	-221.0%	39.8	41.4	3.9%	50.2%
Reported PBT	A\$m	(11.5)	2.2	-118.7%	-100.8%	27.3	28.9	5.7%	1240.2%
Normalised net income	A\$m	22.0	22.0	0.0%	-221.0%	31.8	33.1	3.9%	50.2%
NPATA	A\$m	26.6	37.5	41.1%	-239.1%	31.8	33.1	3.9%	-11.8%
Add back one-off costs	A\$m	4.8	4.8			0.0	0.0		
Underlying NPATA	A\$m	31.4	42.3	34.8%	764.2%	31.8	33.1	3.9%	-21.8%
Reported net income	A\$m	(9.2)	1.7	-118.7%	-100.6%	21.8	23.1	5.7%	1240.2%
Normalised basic EPS	A\$	0.06	0.06	0.0%	-220.9%	0.09	0.09	3.9%	50.1%
Normalised diluted EPS	A\$	0.06	0.06	0.0%	-217.8%	0.08	0.09	3.9%	50.1%
Reported basic EPS	A\$	(0.02)	0.00	-118.7%	-100.6%	0.06	0.06	5.7%	1239.1%
NPATA/share	A\$	0.07	0.10	41.1%	-238.9%	0.08	0.09	3.9%	-11.9%
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	22.6	11.7	-48.3%	-42.7%	(3.8)	(16.0)	319.4%	N/A
GDV	A\$bn	154.3	154.3	0.0%	19.1%	174.2	174.2	0.0%	12.9%
Yield	bp	17	17	0	-3	14	14	0	-3

Source: Edison Investment Research

Exhibit 2: Financial summary

	A\$m	2019	2020	2021	2022	2023	2024e	2025e
		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
30-June								
INCOME STATEMENT								
Revenue		97.2	121.0	192.2	232.4	254.2	262.1	238.0
Cost of Sales		(24.2)	(32.9)	(63.8)	(74.6)	(89.1)	(66.8)	(64.1)
Gross Profit		73.0	88.1	128.4	157.8	165.1	195.2	173.9
EBITDA		29.7	32.5	42.2	34.3	(2.6)	49.7	62.5
Normalised operating profit		25.6	22.4	31.6	18.4	(19.2)	32.5	44.8
Amortisation of acquired intangibles		(7.5)	(11.1)	(20.2)	(16.5)	(18.2)	(10.0)	(10.0)
Exceptionals		(3.0)	(13.6)	(11.2)	1.4	(262.9)	(25.8)	0.0
Share-based payments		(4.2)	(6.1)	(5.0)	(3.0)	(1.8)	(5.0)	(2.5)
Reported operating profit		10.9	(8.5)	(4.8)	0.3	(302.0)	(8.3)	32.3
Net Interest		(0.0)	(0.7)	(1.4)	(2.4)	(3.6)	(5.0)	(3.4)
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	15.4	0.0
Profit Before Tax (norm)		25.6	21.6	30.2	16.0	(22.8)	27.5	41.4
Profit Before Tax (reported)		9.0	(7.9)	(23.3)	(0.3)	(281.8)	2.2	28.9
Reported tax		(0.6)	0.7	(5.4)	(4.5)	(3.1)	(0.4)	(5.8)
Profit After Tax (norm)		20.5	17.2	24.1	12.8	(18.2)	22.0	33.1
Profit After Tax (reported)		8.5	(7.1)	(28.7)	(4.8)	(284.8)	1.7	23.1
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)	22.0	33.1
Net income (reported)		8.3	(7.1)	(28.7)	(4.8)	(284.8)	1.7	23.1
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)	0.059	0.088
EPS - normalised fully diluted (c)		7.812	5.489	6.579	3.398	(4.869)	5.736	8.610
EPS - basic reported (A\$)		0.033	(0.023)	(0.080)	(0.013)	(0.762)	0.005	0.062
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	3.1	(-9.2)
Gross Margin (%)		75.1	72.8	66.8	67.9	64.9	74.5	73.1
EBITDA Margin (%)		30.6	26.9	21.9	14.8	-1.0	19.0	26.3
Normalised Operating Margin		26.4	18.5	16.4	7.9	-7.5	12.4	18.8
BALANCE SHEET								
Fixed Assets		162.9	872.1	685.3	827.3	581.3	511.6	498.1
Intangible Assets		104.6	371.7	350.1	448.5	192.5	153.8	140.0
Tangible Assets		5.4	14.6	11.2	12.7	10.6	11.3	12.0
Investments & other		53.0	485.8	323.9	366.1	378.3	346.6	346.0
Current Assets		313.8	1,008.6	1,603.5	1,855.1	2,413.2	1,762.1	1,710.9
Stocks		18.2	22.3	16.4	21.5	27.5	27.6	26.7
Debtors		14.4	21.7	22.0	35.8	38.9	39.3	36.0
Cash & cash equivalents		33.1	118.4	141.2	73.7	71.4	66.4	16.0
Other		248.2	846.2	1,424.0	1,724.1	2,275.5	1,628.8	1,632.3
Current Liabilities		(299.0)	(1,357.8)	(1,792.8)	(2,100.1)	(2,709.9)	(2,050.8)	(1,959.7)
Creditors		(33.9)	(47.5)	(62.9)	(65.7)	(82.3)	(68.3)	(56.2)
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)	(78.1)	0.0
Other		(249.4)	(1,307.7)	(1,722.5)	(2,029.8)	(2,601.5)	(1,901.3)	(1,900.4)
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	181.3	206.9
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	181.3	206.9
CASH FLOW								
Op Cash Flow before WC and tax		28.4	31.2	41.2	33.3	(2.3)	49.7	62.5
Working capital		2.0	3.6	31.7	(68.4)	9.0	(29.4)	(11.7)
Exceptional & other		(0.7)	(12.7)	(17.3)	0.4	(2.6)	(1.2)	0.0
Tax		(0.6)	0.7	(5.4)	(4.5)	(3.1)	(0.4)	(5.8)
Net operating cash flow		29.2	22.8	50.2	(39.1)	0.9	18.7	45.1
Capex		(5.8)	(11.0)	(12.6)	(14.1)	(11.7)	(11.2)	(11.8)
Acquisitions/disposals		(44.0)	(142.5)	(3.5)	(57.1)	10.9	(5.3)	(28.8)
Net interest		(0.0)	(0.7)	(1.4)	(2.4)	(3.6)	(5.0)	(3.4)
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)	(5.0)	(1.1)
Opening net debt/(cash)		(39.0)	(18.1)	(82.5)	(103.0)	9.7	20.4	11.7
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)	13.7	28.8
Closing net debt/(cash)		(18.1)	(82.5)	(103.0)	9.7	20.4	11.7	(16.0)

Source: EML Payments, Edison Investment Research

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