

## GROWING BIG IN NICHE MARKETS

Written on the 16 October 2014 by Laura Daquino



IN just a couple of years, Emerchants (ASX: EML) has gone from Australian gift card company to multinational payment solutions provider.

The company has recently completed its first international acquisition of Store Financial Services in the United Kingdom for \$25 million, and is transacting throughout Europe at an increasing rate.

EML CEO and managing director Tom Cregan (pictured) says the UK's regulatory environment won over the company when considering offshore expansion as it provides a gateway to further opportunities.

"We started assessing regions of the world about 18 months ago to see where was best for prepaid payments and identified Europe as the core market about a year and a half ago," says Cregan.

"We decided on Europe because of the regulatory environment – if you have an ability to issue cards through Europe, you can issue them through any EU country under the same regulatory regime and there are only two currencies to consider."

Cregan says EML is still a payments business at its heart, but there is more and more opportunity for the company to grow its offering beyond gift cards, or non-reloadables, that were originally its only product.

However, Cregan isn't denying that there is still big business in non-reloadables, notably through Australia's gambling industry.

The industry is the world's largest by participation with 80 per cent of the population taking part and Cregan is ensuring EML is ripe to capitalise on this by partnering with three of the industry's top dogs, Sportsbet, Ladbrokes and BetEasy.

EML is also taking care of a consumer program for the NAB involving gift card issuing based on this straying from the bank's core business. Evidently, EML's systems for issuing and processing gift cards are still well sought after despite the business now deciding to split its focus down the line.

"About three years ago, gift cards were 100 per cent of the business and we made the decision then to invest in product technology and development, IT and infrastructure to move into a reloadable business," says Cregan, adding that profits-wise it's a smarter move because non-reloadables take one or two transactions then they are done.

"By financial year 2014, reloadables went to about five per cent of payments and we expect this to grow to in excess of 50 per cent by financial year 2015."

These moves are expected to make strong financial sense, with Cregan forecasting that EML's financial year 2016 revenue will be north of \$20 million, a significant jump from last year's revenue of \$5.2 million.

It might seem easy to achieve when EML has no direct competition – or it could be an even more significant feat for a hybrid company whose competition comes from every direction.

"It's interesting with competition because other companies do bits of what we do but don't chose to focus on all the same areas," says Cregan.

"It's a very small industry and it requires particular expertise around regulation and IT, which is why in the gambling space in particular we have no competition."

Owing to the company's gap-filling finesse, Cregan says there are still many more avenues EML can transact through – but he doesn't want to get ahead of himself.

"There is never a shortage of where the cards can be used – banks, prepaid cards, gambling companies – and it's really just a matter of finding what can deliver the biggest value as we don't want to put years into developing a program where margins are small," says Cregan.

"The beauty of these programs is they are highly automated so as they grow they don't necessarily need more people working on them.

"Our programs have taught me the lesson time and time again that all of the investment is upfront and once you have critical mass, every new transaction is basically profitable."

"The challenge isn't operational by any means; it's only ever executional – we are continually seeking new ways to launch and scale as quick as possible."

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