

Emerchants (ASX:EML) talks payment solutions technology

May 23, 2016 11:18 AM

Emerchants Limited (ASX:EML) Managing Director, Tom Cregan discusses its payment solutions technology, acquisition of Store Financial Services



Emerchants Limited (ASX:EML) is a specialist prepaid processor program manager and issuer in Australia, and recently expanded into the UK and then recently expanded into the US. So our core businesses are gift cards, what we call single use gift cards. So you can load money for them once and use them once, or reloadable cards, which are like any other bankcard that can be loaded and used frequently.

What makes our products attractive is we tend to look for segments in the market, where banks aren't able to offer a product, or don't want to offer a product. So we look for segments that require a lot of customisation. We look for segments that require a lot of unique branding. And we look for segments where banks typically don't offer solutions. So in terms of our gaming cards, which are used in the gaming segment, they allow customers to access their winnings instantaneously, or virtually instantaneously after winning. Which is something that the banks hadn't built a presence in.

Our three main verticals if you like, are what we call on the gift side. They're what you would call incentive cards, so they're not shopping; they are not Myer cards for example. They tend to be more cards issued for the purchase of a particular product. So Harvey Norman Holdings Limited (ASX:HVN) is one of our customers. Buy a TV at Harvey Norman, spend \$1,000 on the TV and get \$100 cash back. So they tend to be consumer incentive cards. We do that here, we do that in the UK, we do that in Europe and with the recently announced US acquisition, we do that as well. In the reloadable side, it's predominantly gaming. So here we have most of the online gaming companies. We expanded into that segment in the UK as well, just recently. And that'll also be a big focus of our North American business as well.

So our float, as of December we had \$130 million in float between the UK business and the Australian business. There's not a lot you can do with it to be honest, because it's card order

money. So you can't invest it, we can't do anything creative with it, it effectively sits there. It generates us an interest income, but we're not at liberty to do anything else with it. That would be putting that money at risk.

So financially we had a good first-half. The business has been on a three-year trajectory. In 2011, it lost several million dollars, it's been recovering ever since then. So we made three and a bit million dollars in EBITDA, for the first-half of the year. Most analysts would have us at around \$5 to \$6 million EBITDA this year, which is 2x on what it was last year. I mean this business it moves at a million miles an hour. So operationally we signed our first gaming deal in the UK, which we signed with a company called Bet365, which is the largest privately owned gaming company in the world. So they've got 22 million customers globally. So we signed that deal recently, which was the product of a year's worth of work and that product will be going to market, in the first-half of the next financial year.

Domestically, we launched programs for William Hill, we launched programs at CrownBet; we launched programs for Bet365. So we now have most of if not all of the gaming operators in Australia. The rationale for any acquisition we do is pretty clear. So the Board's mandate to management is it has to be geographically expansive, so we're not going to go and buy a business in an existing market, for the sake of growth. So their view is if they already have a presence in that market, organically we should be able to grow that business. So they look for geographical diversification and they look for product synergy.

So the business in the US is obviously the US and Canada, around 50/50 revenue split between those two countries. It gave us that; it gave us obviously geographic diversification. Product wise they had some unique things that we don't do a lot of in the other countries, particularly around mobile payments, which we could then leverage there but also here and in the UK, and Europe. So they were the main drivers for the acquisition, but they're also customer synergy. So when you look at Canada for example, where we have gaming customers here, we have the same gaming customers in the UK, those same gaming customers are in Canada. So it just makes sense for us to try to support that client in as many markets, as we can.

So the business was US\$35 million, was the price, it was funded through 100 per cent institutional placement. In addition to the US\$35 million, we raised an extra \$20 million in cash. Originally we were raising \$10 million in cash. We ended up being heavily oversubscribed, so it would have been very minimal allocations for new investors. So we increased the size of the pool, so effectively bought the business, have \$20 million in cash. So come the close, which should be end of May, we'll have roughly \$28/\$29 million in cash, which we'll then use for either additional acquisitions, or other growth oriented investments.

In a year from now, I think we'll just continue to grow. We don't just come to work everyday looking at what the next opportunity is. So in Australia the team's looking at what other verticals, what other industry applications are there for it. The US has a huge pipeline of activity, everything from programs with Facebook, which recently launched, to programs they're looking into doing the casino industry. They have year's worth of runway ahead of them there. UK and Europe is exciting. The UK and Italy, Germany, France would be the completely different markets culturally obviously, but they're great markets, there is opportunity for us there. So I think it'll just be a continuation of what we've been doing in the past, with an eye for the right opportunity for acquisitions, if they present themselves.

http://www.finnewsnetwork.com.au/archives/finance_news_network123350.html