Smartpay Full Year Results Announcement

29 May 2015

NZX: SPY
ASX: SMP

SHARE INFORMATION

Issued Shares: 171,752,278

BOARD OF DIRECTORS

Chairman: Ivan Hammerschlag
Managing Director: Bradley Gerdis
Non-Executive: Greg Barclay
Non-Executive: Matthew Turnbull
Executive Director: Marty Pomeroy

WEBSITES

www.smartpay.co.nz
www.smartpay.com.au

REGISTERED OFFICES

New Zealand:
182 - 192 Wairau Road
Glenfield
Auckland 0627
New Zealand

Phone: +64 (0)9 442 2700
Fax: +64 (0)9 442 2722

info@smartpay.co.nz

Australia:
Level 2
117 York Street
Sydney
NSW 2000

Phone: +61 (0)2 8876 2300
Fax: +61 (0)2 9869 4223

info@smartpay.com.au

Smartpay Holdings Ltd today announced its full year profit for the 12 months ended 31 March 2015.

Full Year Financial Highlights

- Revenue $22.2m, 3% lower than the prior year $22.9m
- EBITDA* $9.2m, 3% lower than the prior year $9.4m (prior year normalised for reported non-recurring items)
- Net Profit After Tax $1.6m, 10% lower than the prior year $1.7m
- Diluted Earnings Per Share (EPS) of 0.91 cents, 10% lower than the prior year 1.01 cents
- Growth in new taxi business underway

Operating Results

The primary contributor to the lower revenue and EBITDA was the cessation of our largest Australian taxi contract revenue at the end of December 2014. This was an anticipated outcome driven by Smartpay's decision to participate directly in the Australian taxi industry rather than through an indirect wholesale relationship. The result in the current period was a 9 month revenue contribution compared to a full 12 month contribution in the prior period.

While EBITDA* of $9.2m represents a 5% decrease on the prior period result of $9.7m, as reported at the time, the prior period result included a one off accounting benefit relating to the release of an accrual for communication costs, and the inclusion of a number of non recurring costs relating to the ASX listing. When viewed in the context of the prior period's normalised result of $9.4m, the current period's EBITDA* of $9.2 was lower by 3%.

Net Profit After Tax of $1.6m and EPS of 0.91 cents are only marginally lower than the prior year Net Profit After Tax of $1.7m and EPS of 1.01 cents.

Review of Operations

The reduction in full year revenue and profit as a result of the cessation of our Australian taxi contract revenues masks the overall progress achieved in the business during the year. Notable achievements in our New Zealand business during the period include:

- a number of new distribution deals for our new mobile integrated payments terminals, including the provision of our mPos solution to ASB Bank announced in August last year;

- the conclusion of the Epay deal announced in July last year. This deal brought an immediate revenue contribution and offers ongoing potential to increase revenue per unit as we grow this new product in New Zealand;

- the delivery of a significant Australian state government transport authority software payments project which contributed to revenue in the period and which holds the potential for future revenue streams; and

- the launch of an integrated mobile taxi booking and payment app for our New Zealand taxi partners. The app includes the unique functionality of integration to our in-car payments terminals which are prevalent across the majority of the New Zealand taxi industry.

With most of these projects completed in the first half of the financial year, the focus in the second half was mainly on the development and launch of our own Australian taxi business which is the cornerstone of our strategy to replace and grow the revenues and profit forgone in our previous Australian taxi contract. This venture is now well underway following the launch of Smartpay Taxis Pty Ltd in December last year. A detailed update is provided below.

Business Update and Outlook

Smartpay's current business and opportunity set can be broadly divided into two main areas. We have a mature, stable New Zealand business with a significant market position which supports the development of our relatively new Australian business into what we believe is a market that offers significant growth potential.

Over the past two years we have tested a number of growth channels into the Australian market while simultaneously building our on-the-ground operational capability. Our experience over this time has led us to recognise the key opportunities where we have a competitive advantage defined by our ability to deliver differentiated product to fill identified market needs. In-line with this strategy we have made some recent changes to our Australian business to support this growth including the recent appointment of an experienced General Manager based in our Sydney office.

Smartpay Taxis

A key theme for our Australian business over the past year has been the preparation and launch of our direct taxi payments offering to capitalise on the opportunities we see in a changing taxi market and offset the resultant loss of revenue as we moved away from our previous wholesale taxi relationship in Australia.

The Australian taxi market has and continues to undergo significant structural change driven by both regulatory change, for example the move last year from a 10% surcharge on card payments to 5% in Victoria and NSW, and technology change as "booking apps" for smartphones seek to disrupt the industry structure by disintermediating the traditional dispatch networks.

Up until the end of December last year, around 8% of Smartpay's revenue was derived from a single relationship with an Australian taxi payments provider who provided our terminals directly to taxi drivers across Australia. In a strategy to capitalise on both the regulatory and technology changes underway in the industry, we opted to launch our own taxi payments business in Australia through a direct participation model rather than through our previous model of supplying terminals and transaction services to a single wholesale customer. We adopted this approach in the knowledge that it would take us time to develop this business to the point it could replace our previous revenue line but we did this in the expectation that a direct participation model will ultimately earn us higher margins than the previous model and de-risk our business through removing our reliance on a single customer in a changing industry. On our side we have significant experience and capability in taxi payments technology based on both our previous experience in the Australian market and of course our market leading position servicing the majority of taxis in New Zealand.

We are pleased to report that in a relatively short space of time since launching our Australian taxi business in December last year, we have now secured contracts with a number of Australian taxi operators which is testament to our superior value proposition, both technical and commercial. To date we have deployed close to 600 terminals which represents the initial part of a substantial pipeline which we expect to deploy during the current financial year.

Of course this is just the beginning of our Australian taxi business and with the total taxi market standing at of over 21,000 cabs, we are targeting strong growth in this part of our business.

General Retail

The other area we see significant opportunity based on our competitive advantage and differentiated product is next-generation integrated payments terminals for both larger retailers and the emerging mobile payment market. We have seen success with these products over the past year in our New Zealand business and based on the growing demand we are seeing from the Australian market for these products we expect to see significant growth in our Australian retail terminal numbers when we release them into Australia later this year. As is often the case with anybody bringing new technology into the Australian payments market, our progress with this development has been slower than we would have liked but we are confident that this project is nearing completion with a target release date late Q3 / early Q4 this calendar year.

Summary

We continue to make pleasing progress on both sides of the Tasman, and even more so now in Australia as we bring our new solutions to market. We are seeing clear evidence of this with the level of Taxi business we have contracted in a relatively short space of time since we launched this solution late last year. We expect to see similar growth opportunities in our general retail business through the course of this year in both our NZ and Australian businesses.

*EBITDA = Earnings Before Interest, Tax, Depreciation, Amortisation (including share option amortisation), impairments and foreign exchange adjustments. EBITDA is a useful non-GAAP measure as it shows the contribution to earnings prior to finance costs and non cash items.

Corporate Directory

Registered and Principal offices

New Zealand:

182 - 192 Wairau Road
Wairau Valley, Auckland 0627

Email: info@smartpay.co.nz
Phone: +64 (0)9 442 2700
Fax: +64 (0)9 442 2722

Website:
www.smartpay.co.nz

Australia:

Level 2, 117 York Street
Sydney, NSW 2000

Email: info@smartpay.com.au
Phone: +61 (0)2 8876 2300
Fax: +61 (0)2 9869 4223

Website:
www.smartpay.com.au

Shareholder Enquiries

Enquiries concerning shareholdings should be addressed to:

New Zealand:

Computershare Investor Services Limited
Private Bag 92119, Auckland 1142

Phone: + 64 (0)9 488 8700
Fax: + 64 (0)9 488 8787

Australia:

Computershare Investor Services Pty Limited
GPO Box 3329
Melbourne, VIC 3001

Free phone: 1 800 501 366
Fax: +61 (0)3 9473 2500