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ASX: SMP

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BOARD OF DIRECTORS

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

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Smartpay Achieves Record Full Year Profit

Smartpay Holdings Ltd today announced a record full year profit for the year ended 31 March 2014.

Full Year Financial Highlights

- **Revenue of \$22.9m, a 37% increase on the prior year \$16.7m**
- **EBITDA* of \$9.7m, a 76% increase on the prior year \$5.5m**
- **Net Profit After Tax of \$1.7m, an increase on the prior year loss of \$5.0m**
- **Diluted Earnings Per Share (EPS) of 1.0 cents, an increase on the prior year loss of 3.8 cents**
- **This result includes a full year's contribution from the Viaduct acquisition which was completed in January 2013**

Managing Director, Bradley Gerdis, said "We are delighted to report our first full year profit. The result presented today reflects strong improvements across all metrics and is the culmination of the positive changes made in the business including the integration of the Viaduct acquisition."

Operating Results

Revenue of \$22.9m is in-line with Directors' expectations for the full year.

EBITDA* of \$9.7m included non-recurring items with a net benefit of \$227k. Adjusting for these non-recurring items results in normalised EBITDA* of \$9.4m.

Net Profit After Tax increased to \$1.7m after a negative \$1.0m unrealised foreign exchange adjustment due to the weaker Australian Dollar against the NZ Dollar during the period.

A large component of the year-on-year increase is due to the inclusion of the Viaduct acquisition for the full year compared with only 2 months in the prior period. Excluding the benefit of the Viaduct acquisition, on a pro forma basis based on Viaduct's stand-alone numbers pre-acquisition, revenue increased 6% and EBITDA* increased 36% (30% on a normalised basis).

Net debt reduced to \$21.7m from \$24.3m in the prior period and remains at a comfortable level.

Overall, the above results represent another significant year-on-year improvement and forms a solid foundation for the Company going forward.

Review of Operations

New Zealand

The 2014 financial year was a year of consolidation for our NZ business after a period of substantial change which included the complete restructure of

the business and the completion and integration of a significant acquisition in the Viaduct business.

A core focus of the NZ business during the year was the development of new products to set the foundation for growth in the current 2015 financial year. This investment in time and resource is now enabling the business to enter the new financial year with a host of new growth opportunities, some highlighted below.

Australia

The year under review saw the commencement of our Australian sales business. The initial focus has been to identify and test sales channels into this large market which is over 5x larger than the NZ market. We are continually refining our sales approach as we learn the subtleties of merchant engagement in a previously bank dominated market. While our terminal numbers are showing steady growth, the current level of deployment reflects the early stage of development of this part of our business. Given the size of the market and the very few direct competitors this remains the most significant growth opportunity for Smartpay.

Product Development

During the period under review we have made significant advances in product development which will set the foundation for our growth this year and beyond. Some technology and product highlights include:

- **MPos and Mobile Payments** - We have developed market leading MPos and mobile payments products, including development of our own Till2Go MPos app and integration of our next generation mobile payments terminals with both smartphones and tablet computers (Apple IOS, Android and Windows devices). We have only just begun to introduce these products into the NZ market and will follow with the Australian market later this calendar year. Importantly, we are seeing significant interest from both our bank partners and specific industry verticals in this new technology which we expect will lead to tangible growth through additional terminal numbers in the current financial year.
- **Australian Products** – We introduced a full range of contactless terminals into the Australian market during the year which together with a number of our value add “apps” running on those terminals creates a unique value proposition for retail merchants in this market. This unique product set combined with our growing Australian sales capability are the key ingredients for growth in our Australian terminal sales.
- **Smartlink POS Integration** – We have begun integrating our next generation Smartlink Point Of Sale (POS) integrated payments solution with various POS systems. We have developed two versions of this product, our corporate level product which allows larger corporate customers to integrate our payments terminals to their PC based POS systems; and a SME level product which integrates to simpler Electronic Cash Register (ECR) systems typically found in SMEs. The SME market is a significant market which we believe is currently under serviced based on the positive response we are seeing from both ECR / POS vendors and SME merchants. Our ability to offer larger corporate customers wireless in-store payments integration is creating new opportunities in this newly developing market as retailers look to improve the purchase experience away from fixed till points.



Outlook for the current year

New Zealand

Although our New Zealand business operates in a mature market in which we already have a leading position, we expect to see growth from this market as we deploy our new products into existing and new market segments. In particular as the electronic payments market continues to displace cash as a means of payment, our market leading MPos and mobile payment technology looks set to benefit from this trend as both our merchants and our bank partners look for solutions to service this space.

In addition to targeting growth in terminal numbers, we are also targeting increase in Revenue Per Unit as we add new product and content to our existing and new merchants. We have a number of opportunities in development which we expect to bring to market shortly, each expected to make immediate contributions to revenue and profit.

Australia

We expect to see continued growth in our Australian business this year through a combination of refining and expanding our sales channels and through the addition of new products and technology. In particular the introduction of our MPos and mobile payments products into this market later this calendar year is expected to open up new verticals. These new verticals have the potential to significantly increase our growth opportunities for example in the multi-lane corporate market and route trade.

As our presence in the Australian market grows, we expect to build engagement with additional bank and non-bank acquirers which in turn we expect will lead to further channel opportunities.

Taxis

The Australian taxi market is undergoing significant structural change driven by both regulatory change, for example the recent move from a 10% surcharge on card payments to 5% in Victoria in February and possibly later this year in NSW, and technology change as “booking apps” for smartphones seek to disrupt the industry structure by disintermediating the traditional dispatch networks.

Around 8% of Smartpay’s revenue comes from a single relationship with an Australian taxi payments provider who provides our terminals directly to taxi drivers across Australia. As foreshadowed in Smartpay’s ASX listing Information Memorandum, the current contract ends on 31 December 2014 and is not expected to be renewed. In a strategy to capitalise on both the regulatory and technology changes underway in the industry, we will soon be launching a new business “Smartpay Taxis” aimed at participating directly in the Australian taxi payments industry rather than through the current model of supplying terminals and transaction services to a single customer. While it will take us time to develop this business, we anticipate that a direct participation model will ultimately earn us higher margins than the current model where we have no participation in the transaction surcharge fees.

In preparation for the launch of this business, we have developed a market leading taxi payment technology which includes what we believe to be a world first taxi eco system integrating a mobile booking app with full mobile wallet payment capabilities and integration into the physical in-car payments terminal, taxi meter and dispatch network. While a primary driver of this strategy is to replace the revenue of our expiring taxi supply contract over time, we believe that the introduction of



our new technology combined with our overall scale places us well to be a significant contender in this changing market.

Summary

This year is set to be another exciting year in the development of Smartpay. While the key focus will continue to be on Australian growth, we are also targeting growth in our NZ business as we bring new products to market. Although we will see a reduction in our contracted Australian taxi revenues in the last quarter of this financial year, with the imminent launch of our own taxi payments business and with the continued growth of both our Australian and NZ merchant businesses, we are confident of achieving another year of positive growth.



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