

PayPoint Plc
Trading update for the three months ended 30 June 2024¹

1 August 2024

A positive quarter with further progress on building blocks to £100m EBITDA by end of FY26

Nick Wiles, Chief Executive of PayPoint Plc, said:

“This has been a busy and productive quarter for the Group in which we have delivered further net revenue growth and established a strong platform for continued progress in the current financial year. The strategic investments we have made in Yodel and obconnect, along with an expanded partnership with Incomm in Love2shop, underpin our confidence in a number of our key new opportunity building blocks, adding further momentum to meeting expectations for the current financial year and achieving our medium-term targets.

Consumer behaviour across a number of our businesses has improved over the quarter, though we continue to monitor energy and cash bill payment activity as we head towards the second half of the year. Our expectation remains that the consumer outlook will improve during the course of the year.

Our share buyback programme commenced on 1 July 2024, returning at least £20m over the next 12 months, which, combined with our growing dividend, will further enhance shareholder returns. Our core characteristics of strong earnings growth and cash flow generation, along with continued growth across the Group, give the Board confidence in delivering further progress in the current year.”

GROUP AND DIVISIONAL HIGHLIGHTS

Group net revenue increased by 9.5% to £39.2 million (Q1 FY24: £35.8 million), driven by a strong performance in the quarter by the Shopping, E-commerce and Love2shop divisions.

Shopping divisional net revenue increased by 3.8% to £16.4 million (Q1 FY24: £15.8 million)

- Retail services net revenue increased by 3.8% to £8.1 million (Q1 FY24: £7.8 million) driven by further PayPoint One/Mini site growth to 19,431 (31 March 2024: 19,297) and the annual RPI service fee increase
- Card payments net revenue grew by 3.8% to £8.3 million (Q1 FY24: £8.0 million) with further site growth in the EVO estate to 19,755 (31 March 2024: 19,682) and in the Lloyds Cardnet estate to 10,120 (31 March 2024: 10,064)
- Continued focus on cards pricing governance yielding improved new business and retention margins. Additionally, we continue to see contract length mix shift positively from 1 month to 12 months and time to transact has drastically reduced driven by our welcome call programme and an improved customer onboarding process
- Good progress on PayPoint Engage, our consumer engagement platform for FMCG brands, with further campaigns delivered in the quarter. This includes an Abraxas Marketing award-winning campaign for SPAR during the Euro 2024 campaign, and winning an award at the Independent Agency Awards for our 2023 campaign for Pringles, delivered with our partners, ZEAL Creative.

E-commerce divisional net revenue increased strongly by 75.0% to £4.2 million (Q1 FY24: £2.4 million)

- Strong transaction growth of 66.7% to 32.0 million parcel transactions (Q1 FY24: 19.2 million) reflecting further volume growth for Vinted and driven by the growing consumer adoption of Out of Home and the strong market positioning of the Collect+ network
- Collect+ network increased to 13,085 sites (31 March 2024: 11,786)
- Royal Mail rollout to 5,000 sites now complete as of 31st July 2024

Payments & Banking divisional net revenue decreased by 1.6% to £12.2 million (Q1 FY24: £12.4 million)

- Continued growth through our MultiPay platform and Open Banking, with underlying net revenue increasing by 14.3% to £1.6 million (Q1 FY24: £1.4 million). Total digital net revenue decreased by 8.8% to £3.1 million (Q1 FY24: £3.4 million), with cash out net revenue decreasing by -22.9% to £1.5 million, with the prior year including the one-off benefit of £0.3m from the Energy Bills Support Scheme (EBSS)
- Further Open Banking progress, including delivering cheque replacement services, leveraging our PayPoint OpenPay service, enabling customers to receive funds directly to their bank account or in cash
- Cash through to digital net revenue increased by 5.9% to £1.8 million in the quarter (Q1 FY24: £1.7 million), with continued growth in neobank deposits processed
- Cash payments net revenue was flat at £7.3 million (Q1 FY24: £7.3 million). Legacy cash energy sector net revenue decreased by 15.6% for the quarter versus Q1 FY24.

¹ PayPoint's auditors have not been requested to review the performance

Love2shop divisional net revenue increased by 23.1% to £6.4 million (Q1 FY24: £5.2 million)

- Love2shop Business is trading in line with expectations with a continued focus on driving new business wins. Highstreetvouchers.com continues to perform ahead of expectations, driven by the positive changes made in Q4 FY24 to the product mix and focus of the site to drive improved margin and profitability
- Park Christmas Savings – good progress for 2024 savings season, with payment to conversion for new customers +5% vs prior year and an improvement in the number of 'nil paid' and 'off track' customers, driven by focused saver activity leveraging PayPoint's PayByLink payment solution
- New redemption partners onboarded in the quarter, including Dobbies Garden Centres, Foyles Bookstores, Blackwells, Frankie & Bennys, Las Iguanas and Wilko
- Growing benefits from corporate API integrations launched into major clients last year, with increased billings and improved customer experience

PROGRESS ON BUILDING BLOCKS DRIVING NEW OPPORTUNITIES AND SUSTAINED GROWTH

Strategic investment in Yodel (Parcels)

As announced on 21 June 2024, PayPoint has made a strategic investment in the Yodel business alongside other strategic partners. This investment is in support of the management team plan to further automate and modernise the Yodel business, including initiatives to further strengthen the partnership between the two businesses and to enable an acceleration of consumer adoption of Out of Home delivery and materially increase parcel volumes through this channel. This partnership will enhance the longer-term growth prospects of Collect+ and underpin the further expansion of the Collect+ network as our parcel volumes continue to grow from the 100 million parcel transactions achieved in FY24 towards our medium-term target of 250 million transactions per annum.

Majority ownership of obconnect (Open Banking and Digital Payments)

In July 2022, PayPoint made a minority investment in obconnect, an early-stage technology platform with the capabilities to provide complete market ecosystems across Open Banking, Finance, Data, Energy, Confirmation of Payee and Enhanced Fraud Data. This investment and partnership with obconnect have enabled PayPoint to leverage this technology platform and range of capabilities, offering Open Banking services to both new and existing clients. At a time when the number of applications for Open Banking is growing rapidly, this technology has been an important addition for PayPoint and its clients. This partnership has delivered on our expectations and the Group has already made strong early progress, with over 25 clients contracted for Open Banking services, including American Express and Citizen's Advice, along with a growing pipeline of opportunities across new and existing clients. Over the same period, obconnect as a standalone business has made significant progress, securing contracts with a number of banks and building societies, winning industry recognition at the Open Banking Expo Awards and is on track to achieve profitability in H2 2024.

Given this progress, in agreement with the obconnect management team, we have now taken the decision to take a majority position in obconnect. This strategic investment will see PayPoint own 59.3% of the business and is immediately earnings enhancing. It will further leverage their Open Banking technology platform and unlock greater opportunities within both the PayPoint business and obconnect's new business streams working with a number of key financial institutions and payment organisations. Open Banking is important to the future of the PayPoint business and this investment will enable the Group to consolidate its position further, recognising a modest financial contribution in H2 FY25, and a more meaningful contribution in FY26 and thereafter. The investment is subject to regulatory approval, with completion expected in early October.

Expanded partnership for Love2shop with Incomm Payments

The Group has agreed an important distribution partnership for Love2shop gift cards with Incomm Payments, a global payments technology provider, building on the long-standing relationship between the two companies. The multi-year agreement will enable the distribution of Love2shop gift cards for the first time into new retailer channels, including leading UK grocers and High St stores. This expansion has the potential to deliver a meaningful increase of over £100 million in Love2shop billings over the next five years, building on our progress in establishing new distribution channels through 2,600 multiple retailer partners over the past year and positioning Love2shop as the leading multi-retailer gift card in the UK market. The new partnership will start for the peak trading season this year, with gift cards available in stores within the InComm Payments retail network beginning in September 2024.

BALANCE SHEET AS AT 30 JUNE 2024

The Group had net corporate debt of £81.2 million (31 March 2024: £67.5 million), comprising cash balances of £8.5 million (31 March 2024: £26.4 million), less loans and borrowings of £89.7 million (31 March 2024: £93.9 million).

DIVIDEND

The Board have declared an increased final dividend of 19.2 pence per share, consistent with our dividend policy, vs the final dividend for the year ended 31 March 2023 of 18.6 pence per share. The dividend is payable in equal instalments of 9.6 pence per share on 6 August 2024 and 27 September 2024.

SHARE BUYBACK PROGRAMME

As announced on 1 July 2024, the Group has commenced a three-year share buyback programme, returning at least £20 million to shareholders over the next 12 months, with the potential to increase in years 2 and 3 depending on business performance, market conditions, cash generation and the overall capital needs of the business.

Throughout this period, we will continue to increase dividends at a nominal rate and grow our cover ratio from the current 1.5 to 2.0 times earnings range to over 2.0 times earnings by FY27. Combined with the Buyback Programme, this will enhance shareholder returns and ensure the business continues to maintain an efficient capital structure, balancing an appropriate leverage ratio of around 1.0 times net debt/EBITDA with the overall capital needs of the business.

Enquiries

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ABOUT PAYPOINT GROUP

For tens of thousands of businesses and millions of consumers, we deliver innovative technology and services that make life a little easier.

The PayPoint Group serves a diverse range of organisations, from SME and convenience retailer partners, to local authorities, government, multinational service providers and e-commerce brands. Our products are split across four core business divisions:

- In Shopping, we enhance retailer propositions and customer experiences through our PayPoint One/Mini devices, card payment technology, Counter Cash, ATMs and FMCG partnerships in over 60,000 SME and retailer partner locations across multiple sectors. Our retail network of over 28,000 convenience stores is larger than all the banks, supermarkets and Post Offices put together
- In E-commerce, we deliver best-in-class customer journeys through Collect+, a tech-based delivery solution that allows parcels to be picked up, dropped off and sent at thousands of local stores
- In Payments and Banking, we give our clients and their customers choice in how to make and receive payments quickly and conveniently. This includes our channel-agnostic digital payments platform, MultiPay, offering solutions to clients across Open Banking, card payments, direct debit and cash. PayPoint also supports its eMoney clients with purchase and redemption of eMoney across its retail network.
- In Love2shop, we provide gifting, employee engagement, consumer incentive and prepaid savings solutions to thousands of consumers and businesses. Love2shop is the UK's number one multi-retailer gifting provider, offering consumers the choice to spend at more than 140 high-street and online retail partners. Park Christmas Savings is the UK's biggest Christmas savings club, helping over 350,000 families manage the cost of Christmas, by offering a huge range of gift cards and vouchers from some of the biggest high street names.

Together, these solutions enable the PayPoint Group to create long-term value for all stakeholders, including customers, communities and the world we live in.