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Charging forward with new opportunities albeit with concerns on FY20 remuneration

Company/ASX Code	EML Payments / EML
AGM date	Friday 30 October 2020
Time and location	10:00am AEST
Registry	Link Market Services Limited
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Steven Mabb assisted by Anton Dmytriyev
Pre AGM Meeting?	Yes, with Chair Peter Martin and Deputy Chair David Liddy AM

Please note any potential conflict as follows: The individual involved in the preparation of this voting intention has a shareholding in this company.

Item 1	**Consideration of accounts and reports**
ASA Vote	No vote required

Summary of ASA Position

EML Payments provide payment solutions through more than 1200 programs in Asia Pacific, North America and Europe which include gift cards, incentives and rewards, and supplier payments. They issue mobile, virtual and physical cards including Visa and Mastercard, to major corporate brands, gaming operators and government departments around the world.

EML has updated their strategy for the next 3 years to diversify more of the business and be less reliant on the mall based gift card business. They are focused on growing the General Purpose Reloadable (GPV) segment of the business which is already a large part of the total business and is more consistent than the gift cards segment.

Over 5 years EML has grown significantly. In FY15 revenue was $14.4 million and by FY20 grew to $121.6 million. In FY15 EBITDA was $2.6 million and by FY20 grew to $32.5 million. In FY15 EML operated in 10 countries with 55 staff and by FY20 grew to 28 countries and 450 staff.

Governance and culture

More than half of the board has over 30 years of experience in commercial and financial services, and all members have experience as a board member of listed companies on the ASX, international exchanges or unlisted companies before joining EML Payments Limited. Two of the seven board members are female, and six of seven members (excluding newly appointed board member in May 2020) have beneficiary interest in ordinary shares. Numerous codes of conduct policies were introduced or adjusted to increase ethicality within the organisation such as Anti-Bribery & Corruption policy and Whistle-blower policy. An Audit & Risk Committee (ARC) was established to "oversee financial risk management and internal controls across EML" to effectively access their consistency with the AS/NZS ISO 31000:2009: Risk Management – Principles and Guidelines, which was passed. Additionally, the Board has adopted a Board Charter for the People and Remuneration Committee who oversees the Board's objectives, responsibilities, and framework to effectively manage the company's business and responsibility to shareholders for EML's performance and growth.

Financial performance

In FY20 the amount of total volume processed through EML platforms increased by 54% vs FY19 to $13.9 billion. Roughly 90% of their total revenue is recurring. The lockdowns seen globally due to Covid-19 were a drag on the profitable mall based gift card business in the second half. Whilst total revenues increased 25% vs FY19 to $121 million gross profit margins declined 2%. Gross profit increased 21% vs FY19 to $88 million. Underlying EBITDA increased 10% vs FY19 to $32.5 million however this excluded the cost of an acquisition made during the year costing $15.8 million. If you include these costs then NPAT declined 173% vs FY19 to record a net loss of $5.8 million.

The balance sheet saw net equity increase to $440 million vs $144 million in FY19 although intangibles were responsible for most of this as they increased to $404 million vs $104 million in FY19. Interest cover fell to 2.5 vs 4.6 in FY19.

The company has not paid dividends historically and did not pay dividends in 2020. Despite COVID-19 impacts, the share price increased over the full year to June 30, bringing total shareholder return to 14% for the year or 38% p.a. over five years.

Key events

- **Acquisition** – Acquired a 100% equity stake in Prepaid Financial Services Group (PFS) in March 2020. This group was based in Ireland and helps expand EML in Europe and supports the focus on the General Purpose Reloadable (GPV) segment of the business. Pleasingly management were able to renegotiate the terms of the deal after Covid-19 struck and the original planned total purchase price of $423 million announced in November 2019 was reduced to $252 million in March 2020. This amount includes an earn out potential of GBP 55 million and is payable if EBITDA growth exceeds 33% p.a. over the next 3 years. The acquisition has been paid out of EML cash reserves.

- **Acquisition** – Acquired 74.86% equity stake in EML Money DAC (previously known as PerfectCard DAC) . Also acquired 100% equity stake in EML Payments (EU) Limited (previously known as PerfectCard IT Limited) for a total acquisition consideration of $7.6million.

Buy-back – no current on-market buy-back in effect.

Capital Raisings – In November 2019, capital was raised to fund the acquisition of PFS. It was done with an institutional placement and 1 for 5 accelerated pro-rata non-renounceable entitlement offer and for retail shareholders a 1 for 5 accelerated pro-rata non-renounceable entitlement offer. $64 million in applications were received in the retail offer which was approximately a 72% take up rate. In future ASA recommends a PAITREO model for any capital raised, to ensure all shareholders are treated equally and to avoid dilution.

Key Board or senior management changes

On 18 May 2020, George Gresham was appointed to the board as a Non-Executive Director. No member of the board stepped down in the process. George Gresham is US based and had previously held Non-Executive Directorship position with Green Dot Corporation and Blue Pay Processing, which are both financial technology companies. The board believe George can bring payments industry knowledge and business expertise to support the expansion and globalisation of the EML business in particular in North America.

Brandon Thompson resigned as Chief Commercial Officer (CCO) on 5 June 2020. According to EML, “the role will not be replaced and the functions will be distributed amongst the current EML Executive Team”.

Summary

(As at FYE)	**2020**	**2019**	**2018**	**2017**	**2016**
NPAT ($m)	- 5.854	8.450	2.208	0.09	0.087
UPAT ($m)	10.746	9.017	2.488	0.09	0.543
Share price ($)	3.34	2.92	1.39	1.59	1.25
Dividend (cents)	-	-	-	-	-
TSR (%)	14	110	-12	27	125
EPS (cents)	-1.92	3.32	0.90	0.00	0.05
CEO total remuneration, actual ($m)	1.587	2.650	0.776	0.593	0.830

For 2020, the CEO’s total actual remuneration was **17.2** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

Item 2	Adoption of Remuneration Report
ASA Vote	Against

Summary of ASA Position

CEO rem. framework	Target* $k	% of Total	Max. Opportunity $k	% of Total
Fixed Remuneration	650k	44%	650k	40%
STI - Cash	-	-	-	-
STI - Equity	162k	12%	325k	20%
LTI	650k	44%	650k	40%
Total $m	1.462m	100%	1.625m	100%

As explained in the company annual report, remuneration is a mix of fixed and variable "at risk" STI and LTI components. STI and LTI components reward KMP when challenging performance measures are met or exceeded. Unfortunately the Board has seen fit to overrule their own system and use upward discretion to pay incentives in FY20, despite the financial measures not being met.

Both STI and LTI incentives are delivered wholly in options, based on a 10 day VWAP. STI with a 1 year deferral and LTI with a 3 year vesting schedule. ASA does not encourage the use of options as they are difficult to track for shareholders and instead recommend shares are awarded, that are purchased on market to avoid dilution. We also prefer LTI be measured over at least 4 years.

In FY20 the company stated that the Covid-19 shutdowns impacted the 2nd half of the year and that management had been tracking well against the hurdles prior to this event. Whilst we understand this was an unexpected event and that it had a negative effect on the company's results, equally it has affected shareholders and many customers in a negative way. For example the share price has declined from a high of $5.60 in February 2020 to $3.25 at the end of FY20 which is a decline in shareholder value of 42% during this period.

CEO STI is based on 50% Group EBITDA target and 50% non-financial performance metrics. Whilst the non-financial targets were all met, the gateway of Group EBITDA target was not met. Despite this the Board used discretion to still award 50% of STI resulting in $162.5k in options being awarded and a further $100k being awarded to the CFO. This also assumes it was reasonable to remove more than $15 million in acquisition costs from the EBITDA calculation, which we do not agree with given the CEO would have been heavily involved in this process.

CEO LTI is based on 50% being EBITDA per share target and the other 50% Return on Capital Employed (ROCE) target. Like the STI hurdles, these LTI hurdles were not met. The company cited significant efforts from management to renegotiate the PFS acquisition (which we were also pleased with) that increased the cash balance. When combined with the capital raising they state this had a negative effect on their ROE calculations and in turn LTI metrics. The other metric of EBITDA per share was not achieved nor the ROCE metric. Again despite the hurdles not being fully met the Board has used upwards discretion to award 92% of the LTI, which is where they were tracking up to April 2020. Whilst again we appreciate the unforeseen nature of the Covid-19 shutdowns, the reality is management are being rewarded at 92% of target despite the hurdles not being met and shareholders seeing a 42% reduction in their holdings during the last quarter albeit with a 14% increase FY20 vs FY19.

Total KMP compensation did reduce by around 38% for the year vs FY19 however more than half of the reduction was due to the resignation of the Chief Commercial Office and removal of his incentive payments year over year. The majority of the remaining reduction was in incentives paid out to the CEO vs FY19 (which was a year when his total compensation was in the top quartile amongst similar ASX200 companies). The CEO received $650k in fixed remuneration, $162k in STI and $558k in LTI for a total of $1.37 million in compensation for FY20. He also currently holds over $60 million in shares.

So in summary the company guidance was for $39.5 million EBITDA at the lower bound. EBITDA came in at $32.8 million and that excluded more than $15 million in acquisition costs, that is arguable at best. The board used discretion to award 50% of STI and 92% of LTI despite neither sets of hurdles being fully met. We understand Covid-19 had an impact on the business but we cannot vote in favour and suggest the company review their remuneration structure to determine if it is still fit for purpose moving forward. We also encourage that options be replaced with shares in the awarding of STI and LTI payment. The remuneration report is fairly well laid out in the annual report although we would like to see a table showing actual “take home” compensation for the year as well as the existing statutory table. However there are three sections that are confusing. On page 44 it states that LTI is calculated based on 50% EBITDA per share target and 50% RACE (Return on Capital Employed). However in the Notice of Meeting is states that LTI options are awarded based on 50% NPATA (Net Profit After Tax Adjustments) rather than EBITDA target and also 50% RACE. Secondly, on page 43 and page 49 it lists the maximum LTI is 75% to 100% of Fixed Remuneration for KMP (Key Management Personnel) however in the Notice of Meeting it states that the maximum LTI opportunity for the CEO is 150% of Fixed Remuneration. Thirdly, it shows total CEO compensation for the year as $1.587 million in the statutory table on page 56. However if you add the listed amounts on page 49 of STI at $162k and LTI as $558k and on page 50 fixed remuneration of $650k this only adds up to $1.37 million.

Item 3a	**Re-election of Ms Melanie Wilson as a Director**
ASA Vote	**For**

Summary of ASA Position

Ms Melanie Wilson was appointed to the Board as an independent non-executive Director on 20 February 2018. She has over 12 years' experience across various retail industry sectors and corporate finance/strategy roles at investment banks including Goldman Sachs and Bain & Company. Ms Melanie Wilson holds an MBA from Harvard Business School and Bachelor of Commerce (Honours) from the University of Queensland. Ms Wilson has experience as a non-executive Director of Baby Bunting Group Ltd, iSelect Limited, and more recently, at Property Guru Group (Singapore), JB Hi Fi Limited and Shaver Shop Group Limited.

She currently holds $157 000 in shares which is more than one year's base fees.

Item 3b	**Re-election of Mr Tony Adcock as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr Tony Adcock has been an independent non-executive Director of the Board since 21 November 2011. He has over 30 years' experience in banking and financial services and was formerly a partner at PWC Consulting. He is Chair of the Audit and Risk Committee and a member of the Investment Committee. He is also a Fellow of the Australian Institute if Company Directors.

He currently only holds $82 000 in shares which is less than one year's base fees after 9 years on the Board, so we encourage him to add to his position and bring this up to over one year's fees.

Item 3c	**Election of Mr George Gresham as a Director**
ASA Vote	**For**

Summary of ASA Position

Mr George Gresham was appointed as an independent non-executive Director on 18 May 2020. He holds an MBA and is also a CPA. He was previously CFO of several large financial services and gaming companies in the USA. This relevant experience in the USA should be beneficial to the company as they seek to expand the business further in this important market.

He does not yet hold shares in the company.

Item 4	Grant of STI Options to CEO Mr Tom Cregan
ASA Vote	**Against**

Summary of ASA Position

The CEO STI plan is based on 50% Group EBITDA target and 50% non-financial performance metrics. Whilst the non-financial targets were all met, the gateway of Group EBITDA target was not met. Despite this the Board used discretion to propose awarding award 50% of STI resulting in $162.5k in options potentially being awarded. This also assumes it was reasonable to remove more than $15 million in acquisition costs from the EBITDA calculation, which we do not agree with given the CEO would have been heavily involved in this process. Going forward we would also request incentives are not paid out in Options that are difficult for shareholders to track but rather in shares, that are purchased on market to avoid dilution of shareholders.

Item 5	Grant of LTI Options to CEO Mr Tom Cregan
ASA Vote	**Against**

Summary of ASA Position

The annual report doesn't communicate well that the CEO LTI hurdles are changing FY21. In FY20 it was based on 50% being EBITDA per share target and the other 50% Return on Capital Employed (ROCE) target. However the NOM (Notice of Meeting) lists the first hurdle as 50% NPATA (Net Profit After Tax Adjustments) rather than EBITDA target, which is only listed in a paragraph at the beginning of the annual report and not in the large and glossy sections later covering LTI. It is also unclear whether the maximum opportunity is 100% of Fixed Remuneration as listed in the annual report or 150% of Fixed Remuneration as listed in this item in the NOM. If the NOM that we are voting on is correct we cannot support it as it is a 50% higher maximum LTI opportunity than listed in the annual report. If the CEO maximum LTI has been increased by 50% in FY21 this should have been clearly called out to shareholders in the annual report. Going forward we would also request incentives are not paid out in Options that are difficult for shareholders to track but rather in shares, that are purchased on market to avoid dilution of shareholders.

Item 6	Approval of prior issues of securities to refresh the Company's 15% placement capacity
ASA Vote	**Against**

Summary of ASA Position

This resolution seeks approval to refresh the 15% placement capacity after the previous capital raising to fund the PFS acquisition, which saw the shares issued on 1st April 2020. If this is not approved the company will have to wait until 20 November 2020 for the institutional component of the raising to refresh and until 1st April 2021 for the vendor placement capacity to refresh.

Given the sizeable acquisition of PFS and likely challenges to integrate given current travel restrictions, as well as significant ongoing economic uncertainties we believe it may be opportune to pause on any significant acquisitions for a little longer. Also given the capital raised and deployed there has been a deterioration in the liabilities to tangible asset ratio, the cash balance to total assets ratio and a significant reduction in operating cash flow per share, so we would prefer to see some consolidation and improved return on equity and invested capital, before significant acquisitions and/or capital was raised again.

Item 7	**Renew Rule 38 of the Company's Constitution**
ASA Vote	**For**

Summary of ASA Position

This is a renewal of the proportional takeover provisions and ensures Directors must convene an EGM to vote on a resolution to approve the bid. ASA position is that we prefer full takeovers so that retail shareholders are not left with a controlling shareholder.

Item 8	**Amendment to the Company's Constitution**
ASA Vote	**For**

Summary of ASA Position

This amendment allows the company to hold a virtual AGM. While the Board does not intend to hold wholly virtual AGM's after 2020, it will allow hybrid AGM's going forward allowing people to participate from all locations which we encourage.