

PayPoint plc
Trading update for the three months ended 31 December 2020¹

21 January 2021

HIGHLIGHTS

Continued step change in strategic delivery

- **Tangible progress in driving forward incremental growth opportunities** in client and retail services – new business sector wins in digital payments, major client renewals with diversification to digital services and enhancing our retailer proposition to increase footfall, revenue opportunities and engagement with our retailer partners
- **Integration planning on track** for Handepay/Merchant Rentals, with the acquisition expected to complete in early 2021 (subject to regulatory approval)
- **Successful completion of i-movo acquisition** at the end of November 2020, enhancing our EPOS and terminal services proposition and creating new opportunities with Newspaper, Government, FMCG, Utilities and banking clients
- **Disposal of Romanian business on track** for end of March at significant profit, underpinning UK-focused strategy

Robust performance in line with expectations

- Underlying group net revenue from continuing operations² decreased by £3.0 million (10.8%) to £24.5 million (2020: £27.5 million), which included the cessation of the British Gas contract (£1.7 million)
- UK retail services net revenue decreased by 1.4% to £10.6 million, with increases in card payment transactions and service fees from PayPoint One offset by the £0.4 million impact of compensation paid to retail partners following a card services outage on 14 November 2020 and reduced ATM volumes
- Strong card payment volumes maintained, growing significantly by 46.2% year on year to 49.7 million transactions
- UK parcels transactions increased by 6.6%, delivering a resilient performance despite Covid-19 restrictions
- UK retail network increased to 27,758 sites (31 March 2020: 26,829), with minimal impact from ongoing Covid-19 restrictions
- UK bill payments net revenue decreased by 33.5% to £9.5 million. Excluding the British Gas impact, net revenue decreased by 24.3% and transactions decreased by 23.5%, primarily due to consumers making fewer, larger payments during the Covid-19 period
- Continued digital payments growth, with eMoney transactions increasing by 25.8% and net revenue by 22.2%

Strongly positioned to leverage structural trends accelerated by Covid-19

- PayPoint is well placed to take advantage of the continued shift from cash to digital payments, the growing demand for online shopping fulfilment and the increase in shopping local
- Digital payments continue to grow strongly, with good demand from local authorities for our Cash Out service, particularly supporting them with the distribution of school meal vouchers and Covid-19 related hardship funds
- Enhancement of our send proposition via the Collect+ website is progressing well with a pilot scheduled for Q4, building on the investment in Zebra thermal printers earlier in the year which is already yielding an improved customer experience
- During the current lockdown in January 2021, over three quarters of our field sales team have been refocused to engage with our PayPoint One retailer partners, delivering training and support to maximise the value of the technology in their stores, helping them run their businesses more efficiently and understand sales trends from increased footfall as customers continue to shop local during the restrictions

Nick Wiles, Chief Executive of PayPoint plc, said:

“During the quarter, we have continued to renew and win client business across multiple sectors and made progress with a number of our initiatives to enhance our retailer proposition to increase footfall, revenue opportunities and engagement with our retailer partners. The business continues to show strong resilience and adaptability, delivering a robust performance, in line with expectations, despite increased restrictions in response to Covid-19. We have refocused our field team to work with our retailer partners to help them maximise the value of the PayPoint technology in their stores, enabling them to continue to provide essential services to their local community as well as helping them run their businesses more efficiently and understand sales trends from increased footfall as customers continue to shop local.

Strategically, we continue to accelerate our delivery as we identify new opportunities for growth in our core UK market, both through internal investment and the integration planning of i-movo and Handepay/Merchant Rentals. I am confident the steps we have taken during this year have strengthened the business and its prospects for the future. As we enter the final quarter, our underlying trading performance is at the higher end of our expectations for the year as a whole.”

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

² Comparative information has been restated for the discontinued operation

PROGRESS AGAINST OUR STRATEGIC PRIORITIES

PRIORITY 1: EMBED PAYPOINT AT THE HEART OF CONVENIENCE RETAIL

PayPoint continues to provide technology, payment services, increased footfall and basket spend to our retailer partners. Our UK network of more than 27,700 stores is bigger than all banks, supermarkets and Post Offices together, putting us at the heart of communities nationwide and comprising the best multiple, symbol and independent retailers in the UK. Our superior network means 99.5% of the urban population live within one mile of a PayPoint retailer partner and 98.3% of the rural population live within five miles.

Our network is enabled with cutting-edge technology designed to create a platform for growth and provide retailer partners with everything a modern convenience store needs. Core to this priority is PayPoint One, which includes EPoS and bill payment functionality, and other products such as card payments and ATMs.

PayPoint One:

- PayPoint One sites increased by 1,089 to 17,187 since 31 March 2020, including 284 fewer Covid-19 suspended sites
- Service fee net revenue increased by 6.3% to £3.7 million (2020: £3.5 million) driven by the roll out of PayPoint One to additional sites and an increase in Core and Pro sites
- The PayPoint One average weekly service fee per site increased by £0.66 to £16.04 since 31 March 2020, benefiting from the increase in Core and Pro sites which are charged at a higher rate. EPoS Pro and Core sites increased by 481 and 834 respectively since 31 March 2020, mainly due to new sales, the EPoS Try Before You Buy trial and Covid-19 suspended sites returning
- Opening up new revenue streams from PayPoint One progressing well – targeting Q4 launch for FMCG proposition offering new engagement channels for their customers and driving conversion and footfall for our retailer partners, using sales data insights, retailer rewards/engagement and digital vouchering. Digital advertising screen pilot has been expanded to gain further insights and customer feedback
- Further customer experience improvements introduced for our retailer partners, including Qualtrics monitoring tool to track retailer satisfaction following a field sales visit and enable us to drive ongoing improvements in our retailer interactions
- Store to door pilot in development, creating an open platform for delivery partners to fulfil customer orders with home delivery

Card payment:

- Card payment transactions grew significantly by 46.2% to 49.7 million and net revenue increased by £0.4m million to £2.5 million (2020: £2.1 million), benefiting from the increase in convenience store sales and the preference of stores to take payment by card. The net revenue includes the £0.4 million impact of compensation paid to retail partners following a card services outage on 14 November 2020
- Card payment services were live in 9,691 sites at 31 December 2020, an increase of 256 sites since 31 March 2020, mainly due to new sales and Covid-19 suspended sites returning. The average transaction value for the quarter increased to £12.41 (2020: £11.91), driven by the increase in contactless limit to £45 in 2020 along with the increasing average basket size in the convenience sector
- Use of our card payments net settlement functionality continues to grow and is now active in 1,344 sites, an increase of 236% since 31 March 2020
- Continued focus on driving card attachment and Q4 campaign planned to re-engage with our non-card retail partners

ATM:

- ATM services were live in 3,684 sites at 31 December 2020, an increase of 64 sites since 31 March 2020, with Covid-19 suspended sites decreasing by 175. However, 108 sites continued to remain suspended as at 31 December 2020, particularly in non-convenience store locations unable to re-open due to ongoing government restrictions
- ATM net revenue decreased by 15.4% to £2.5 million (2020: £3.0 million) due to a 23.1% reduction in transactions, mainly due to the continuing trend of reduced demand for cash across the economy
- Good progress on our banking proposition, offering cash withdrawals and deposits over the counter. The LINK Counter Service trial, commenced in October 2020, providing cash withdrawals over the counter in communities with limited access to cash, has been well received by industry, Government bodies and consumers. In 10 weeks across 14 locations, c.4,700 withdrawals have been made with £140k dispensed

PRIORITY 2: PAYPOINT BECOMES THE DEFINITIVE PARCEL POINT SOLUTION

PayPoint's extensive parcel pick-up and drop-off network, which comprises over 10,300 sites, provides a solution for carriers and a footfall driver for retailer partners, including Amazon, eBay, DPD, DHL, Fedex and Yodel. Delivering high levels of consumer satisfaction, our offering enables our carrier partners to improve service levels for their consumers in the crucial 'last mile' of deliveries, balancing the continued growth in online retail shopping with the realities of operating in a competitive low-margin market.

- Parcel services were live in 10,370 sites at 31 December 2020, an increase of 3,332 sites since 31 March 2020 due to increasing sites for newer parcel partners and Covid-19 suspended sites returning
- Parcels transactions increased by 6.6% versus the same period last year, delivering a resilient performance despite Covid-19 restrictions
- Investment in Zebra thermal printers yielded improved customer experience and transaction growth – 32% of returns (414k transactions) were printed in store in December 2020 (December 2019: 4%) with 42% of those transactions using the new printer technology, highlighting growing popularity and consumer demand for the service

- Net revenue declined by 11.9% year on year, with overall transaction increases diluted by lower margin from our print in store service
- The new partnership signed with DPD was successfully launched ahead of the peak festive period, with DPD live in 2,449 sites at 31 December 2020. The new service is performing well in terms of both volumes and customer experience
- Parcels Team has now been fully integrated into the wider Retail Services function, with retailer and carrier partners seeing improved response times
- Heads of terms have been signed with HubBox to provide 4,000 sites with initial sites planned to go live in Q4 FY 2021
- Enhancing our send proposition via Collect+ website, with a pilot scheduled for Q4 FY 2021

PRIORITY 3: SUSTAIN LEADERSHIP IN 'PAY-AS-YOU-GO' AND GROW DIGITAL BILL PAYMENTS

PayPoint is pioneering new ways of using digital payments so organisations can seamlessly and effectively serve their customers. Our market-leading omnichannel solution – MultiPay – is an integrated solution offering a full suite of digital payments. It enables transactions online and through smartphone apps and text messages, as well as over the counter, over the phone and via interactive voice response (IVR) systems. It also supports a full range of Direct Debit options, including scheduling collections.

Over-the-counter payments remain an important part of the UK economy, particularly for the 8 million UK consumers who rely on using cash for payments. We will continue to retain our leadership in this area, through our superior retail network, coverage and service proposition. This business remains highly cash generative and enables us to invest in future growth and innovation

Major relationships renewed and expanding to digital services:

- Major client contract renewal programme progress – 7 further renewals completed, delivering a broader range of services from our MultiPay digital payments portfolio
- Continued diversification from cash to digital - 16 new clients signed, with 10 coming from non-energy sectors and 13 taking digital payments solutions
- Key multiple retailers renewed - McColl's, Sainsburys and EG Group contract renewals signed, reflecting the strength of our proposition and the ongoing quality and prominence of our network

Digital payments growth:

- Continued strong growth in eMoney, with transactions increasing by 25.8% and a 22.2% increase in net revenue.
- BBC TV Licensing app was launched, generating strong volumes since launch
- Continued demand for our Cash Out service due to ongoing Government meal voucher schemes and Covid-19 related hardship funds
- 6 new clients live in the period and a further 4 additional services from our MultiPay digital payments portfolio with existing clients. A further 6 new clients signed in Q3 which will go live between January and February 2021

Overall performance:

- UK top-ups and eMoney net revenue increased by 5.5%. Top-up transactions reduced by 16.9% due to further declines in the prepaid mobile sector, Covid-19 impacts and the reduced energy price cap which came into effect on 1 October 2020
- Bill payments net revenue³ decreased by 33.5% on a reported basis, or by 24.3% excluding the £1.7 million comparative period net revenue from British Gas. Excluding British Gas, transactions decreased by 25.3%, primarily due to the impacts of Covid-19, where consumers are making fewer, larger payments
- As expected, MultiPay net revenue decreased by 15.9%, driven by the anticipated lower volumes from Utilita as they move customers to their in-house solutions

PRIORITY 4: BUILDING A DELIVERY FOCUSED ORGANISATION AND CULTURE

Underpinning PayPoint's future success is the continued development and investment in our people, systems and organisation with the aim to create an efficient and high performance based culture with a focus on empowerment, engagement and customer service.

- Integration planning on track for Handepay/Merchant Rentals acquisition, with initial organisation design complete and synergies identified. The acquisition is expected to complete in early 2021 (subject to regulatory approval)
- Integration complete for i-movo acquisition, enhancing our EPOS and terminal services proposition and creating new opportunities with Newspaper, Government, FMCG, Utilities and banking clients
- Alan Dale was appointed to the Board as Finance Director on 20 November 2020
- Rosie Shapland was appointed to the Board as an Independent Non-Executive Director and assumed chairmanship of the Audit Committee from 1 December 2020.

³ Comparative information has been restated for the discontinued operation.

COVID-19 IMPACTS

PayPoint is well placed to take advantage of the trends that have accelerated over the past year due to Covid-19, including the continued shift from cash to digital payments, the growing demand for online shopping fulfilment and the increase in shopping local.

Overall trading has remained resilient in the third quarter against the ongoing backdrop of Covid-19, with transaction volumes and sites performing well overall during the national lockdown in November, as shown in the tables below. Digital payments (eMoney) continue to grow strongly and card payments have continued their strong performance with transactions in the third quarter 46.2% above the comparative period, benefitting from the broader consumer shift from cash to card and to more local shopping. Parcel volumes performed well in the quarter, maintaining year-on-year increases and benefitting from the festive peak trading season.

The tables below compare the volume of transactions with the comparative periods in the prior year and show the sites returning from temporary suspension due to Covid-19.

Service	Q1 20/21 vs 19/20 % increase/ (decrease)	Q2 20/21 vs 19/20 % increase/ (decrease)	Q3 20/21 vs 19/20 % increase/ (decrease)
UK bill payment transactions ⁴	(25.0%)	(18.7%)	(25.3%)
UK mobile top-up transactions	(20.0%)	(19.0%)	(16.9%)
UK eMoney transactions	12.4%	18.4%	25.8%
ATM transactions	(30.3%)	(19.2%)	(23.1%)
Card payment transactions	80.3%	57.7%	46.2%
Parcels transactions	(13.0%)	7.5%	6.6%

Sites temporarily suspended due to Covid-19	As at 31 March 2020	As at 30 April 2020	As at 30 June 2020	As at 30 September 2020	At 31 December 2020
UK PayPoint One	328	368	79	29	44
UK ATMs	283	330	212	26	108
UK Card payments	293	230	47	15	23
UK Parcels	208	274	87	18	36

In the first few weeks of the current national lockdown, announced on 4 January 2021, transactions are broadly performing in line with expectations, although we have seen an early impact to parcel volumes due to the new restrictions. We are focused on building further engagement and momentum with our customers across the different sectors we serve, creating opportunities to drive further retailer partner technology adoption and to introduce new digital payments products and services to our clients.

Over three quarters of our field sales team have been refocused to engage our PayPoint One retailer partners, delivering training and support to maximise the value of the PayPoint technology in their stores, helping them run their businesses more efficiently and understand sales trends from increased footfall as customers continue to shop local during the restrictions. In our digital payments business, we have engaged with local authorities for our Cash Out service, particularly supporting them with the distribution of school meal vouchers and Covid-19 related hardship funds, and housing associations and utilities with our Pay By Link product, assisting with debt and arrears payments.

OFGEM

On 30 September 2020, we announced that we had received a Statement of Objections from Ofgem relating to certain contractual terms with certain energy suppliers and retailers for the provision of over-the-counter (OTC) payment services. We are considering Ofgem's provisional views set out in the Statement of Objections and will exercise our right to respond to Ofgem in due course. It is therefore too early at this stage to predict an outcome and any potential outflow of funds.

OUTLOOK

We have continued to see a robust performance in our business, particularly through government restrictions, and overall trading has remained resilient. Card payment and digital payment (MultiPay and eMoney) volumes are performing in line with our expectations and are expected to carry on performing strongly, offsetting reductions in bill payment, top-up and ATM volumes driven by structural changes to consumer behavior and Covid-19. We continue to expect any periods of colder weather in the last quarter to have a positive impact on energy transactions compared to last year. Our outlook for the year ending 31 March 2021 is underpinned by our actions to manage costs, apply a tight operational focus and maximise new business opportunities, whilst also factoring in any one-off costs related to the acceleration of our strategy and acquisition activity.

Despite continuing government restrictions, we remain confident that we have taken the necessary steps and learnings from previous lockdowns to ensure the continued resilience and performance of the business through this developing situation. As we enter the final quarter, our underlying trading performance is at the higher end of our expectations for the year as a whole.

⁴Excludes the impact of British Gas contract not being renewed.

DISCONTINUED OPERATIONS (ROMANIA)

- On 21 October 2020, PayPoint announced the disposal of its Romanian business to Innova Capital. The transaction is expected to complete at the end of March 2021, subject to regulatory approvals
- Resilience in transactions during Covid-19, with transactions of 28.2 million, a decrease of 3.3% on last year. The overall number of sites increased marginally to 19,343 (31 March 2020: 19,257)
- Net revenue increased by 6.3% through margin improvement

BALANCE SHEET AS AT 31 DECEMBER 2020

The Group had net corporate debt of £5.9 million (31 March 2020: £12.0 million) reflecting cash balances of £9.1 million (31 March 2020: £58.0 million), less borrowings of £15.0 million (31 March 2020: £70.0 million) from the revolving credit facility.

DIVIDEND

The Board previously declared an interim dividend of 15.6 pence per share. The first instalment of the interim ordinary dividend of 7.8 pence per share was paid on 29 December 2020. The second instalment of the same amount will be paid on 8 March 2021.

Enquiries

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ABOUT PAYPOINT

In thousands of retail locations, at home and on the move, we make life more convenient for everyone.

For retailers, we offer innovative and time-saving technology that empowers convenience retailers in the UK and Romania to achieve higher footfall and increased spend so they can grow their businesses profitably. Our innovative retail services platform, PayPoint One, is now live in over 17,000 stores in the UK and offers everything a modern convenience store needs, from parcels and contactless card payments to EPoS and bill payment services. Our technology helps retailers to serve customers quickly, improve business efficiency and stay connected to their stores from anywhere.

We help millions of people to control their household finances, make essential payments and access in-store services like cash withdrawals, eMoney, parcel collections and drop-offs. Our UK network of more than 27,700 stores is bigger than all banks, supermarkets and Post Offices together, putting us at the heart of communities nationwide.

For clients of all sizes we provide market-leading payments technologies without the need for capital investment. Our seamlessly integrated omnichannel solution – MultiPay is a one-stop shop for digital and other customer payments. PayPoint helps a wide range of consumer service organisations save time and money while making it easier for their customers to pay – via any channel and on any device.