Worldpay plc

Full Year Results 2016

Tuesday 7th March 2017

Philip Jansen, Chief Executive Officer

Good morning everyone and welcome to our Full Year results presentation.

2016 was a very good year for Worldpay. We delivered very strong financial results and we've made significant progress on our customer-focused strategy.

As a result we've started 2017 better placed than we have ever been; evidence of our successful transition from a private to public company, but also the resilience of the Worldpay business model.

At Worldpay we have an unrivalled ability to bring together a unique range of capabilities in one place for our customers, an amazing range of capabilities that come into three categories: first, product innovation; second, deep market reach; and third, the unique power of our technology platform.

This combination is the key differentiation for us, and ultimately it allows us to deliver better outcomes for the customers, whether that be increased sales, less costs or less risk.

Now, the outcomes for us are also very positive. In terms of customers, we added more than ever before in 2016, had a really strong performance in renewing and expanding existing contracts, and we have a great pipeline of future prospects as we head into 2017.

As you'll hear me describe, this is being fuelled by a massive agenda of initiatives: in developing new products; in broadening and deepening our market reach; in building our people capabilities; and in playing a leading role in shaping new market developments and new regulations such as PSD2.

And the foundation of all this is, of course, is our technology, where the combination of the new acquiring platform, which is now live and up and running, our gateway infrastructure, our leading edge innovation and our enterprise data platform is giving us a powerful competitive advantage. We have also dramatically improved the pace and trajectory of development on the technology agenda.

So the progress we've made in 2016 gives us great confidence that we're very well positioned for the future and to deliver our medium-term guidance.

Now I'll talk more about the advance in our strategy in a moment, but first let me turn to our 2016 performance both from a global point of view but also from a divisional point of view. I'll kick off with the Group financial highlights.

We're really pleased with these. I think we've continued to make very good progress across all our KPIs: transaction growth in terms of value up 12%; transaction volume up 14%; net revenue up 15%; gross profit up 15%; and to complete the hat trick EBITDA also up 15%; and finally free cash flow, an increase of five-fold to £171m.

We increased our Group revenue margin, that's our net revenue as a percentage of transaction value processed, for the second consecutive year to 25 basis points, as we saw the benefit of delivering extra additional services and products to our customers.

We also began to see an increase in our underlying EBITDA margin, with modest growth of 20 basis points, and I expect further momentum here over this year as we pass the peak of investment.

And with the £140m increase in free cash flow, I think it's fair to say the cash generative capabilities of the business are becoming evident, even with the continued high rates of investment that we experienced in 2016.

If I now look at the performance by each division, let me start with Global eCom. Global eCom delivered strong and broadly-based growth, with transactions growing an amazing 30% to 5 billion transactions, supporting net revenue growth of 22%. There was unusually high growth in the first half, as you'll recall, but that moderated in the second half as we expected.

As you will hear from Rick, there were also some effects from the isolated gateway issue in the middle of the year, but work done by the eCom and technology teams, for which I would like to thank them, has meant that this has not had, and I don't believe it will have, any lasting effect on our customer relationships or underlying growth rate.

We saw strong growth rates across all verticals, but most notably in Retail and Travel which delivered growth of around 50%. Growth was also well spread by product, with strong performances in acquiring and treasury services, and good momentum in alternative payments.

We are now really starting to reap the rewards of our investments, if I look at it on a number of fronts:

Firstly, in our licences and our network, we believe we have the largest licence footprint of any payments company in the world on a single platform.

Secondly, in our ability to deliver a broad range of products to our customers in a unified way across multiple geographies, supported by vertical expertise and delivered by our new regional leadership model that we put in place in 2016.

And thirdly, from our conscious decisions to invest in higher growth areas. So for example we now have around a quarter of all our eCom people in Asia Pacific and Latin America, giving us exposure to the very strong secular growth trends in both these markets, as you will see on a slide later on.

And the combination of these factors meant that we had a strong performance on contract renewals and expansions in 2016. These included names like Transferwise, the online international money transfer platform, United Airlines, and also the UK Government, where I think we processed around £5bn worth of revenue in January alone.

The eCom team led by Shane Happach had another outstanding year on customer retention with revenue retention in 2016, for the sixth year running, of over 99%.

We also had very good momentum with new customers, with over a hundred wins in the year, which were, importantly, very nicely spread across all the verticals. These included names like China Eastern, the fourth largest airline in the world; Volaris, the leading low cost Mexican airline; Sky Betting & Gaming, the online bookmaker; Odigeo, who own brands such as Opodo and eDreams; and Atlassian, a leading enterprise software company.

On new business, the eCom team in 2016 won more business than ever before. And just to give you some sense of that in terms of gross profit we're up 20% versus 2015 on the pipeline. And although it's very early days for 2017 all current indicators point to a very nice strong growth trajectory in the pipeline for 2017. And as you'll understand, that gives me great confidence in Shane and his team that the momentum in 2017 will continue the trajectory that we've seen throughout last year.

Let me turn to the UK. In 2016 net revenue growth was 8%, supported by transaction volume growth of 7%. With ongoing good cost discipline that translated into a nice EBITDA rise of 11%.

In the UK we are seeing the benefits of our consistent focus over the last few years across three key areas, and you'll recall all these:

Firstly, customer service through the Brilliant Basics programme; increasing multi-service penetration is the second category; and finally the roll-out of new transformational products and services.

So actually the story in the UK is similar to eCom, with strong momentum in customer retentions and new wins across all segments, and we delivered four times the level of customer net adds in the SME area versus 2015, with a 24% increase in new SME sales and a 5% reduction in account closures. We are growing market share in the segments that we are targeting.

Very pleasingly 2016 in terms of sustainable growth, this is very important, we also delivered a very nice progression in customer advocacy, with net promoter scores ending the year at a record high, which I think is testament to the work carried out on understanding and how we deliver against our customer expectations and their needs.

The UK team also made great progress in increasing the uptake of products and services across our customer base. For example, cross sales are now eight times higher than last year, and we have seen further progress in SME new customer eCom product penetration, with 45% of all new SME customers taking some form of eCom product.

In terms of transformational products and services, My Business Dashboard, we now have 90,000 customers on My Business Dashboard, that's four times the number this time last year. We're also seeing really strong momentum with the roll-out of our Worldpay Total product, the integrated platform that we discussed last time, with around 40,000 terminals installed as we speak. Again, significant increase versus last year, around 50% up versus this time last year.

So again I'm really confident that the strong momentum will continue in 2017 as the UK benefits from further net add growth and also increased cross sales, and the expansion of our new online sales channel which we launched end of last year which will roll-out and be further expanded in 2017.

So let me turn to the US. As we continue to reposition the US to deliver integrated, omnichannel solutions to the small business and corporate customer segments we are happy with the strategic progress we've made in 2016 within the US business. Given the intense operational focus in the period as well as some headwinds from the delayed EMV solutions, particularly in H2, we are pleased we still managed to deliver good underlying EBITDA growth of 9% driven by strong cost discipline and reasonable growth in transaction volumes in both the small and the corporate segments.

Clearly in the longer term we want to and we will do much better than the 2% revenue growth we saw in 2016, and I'm confident that the foundations that we put in place in 2016 will give us a better growth as we continue to execute our granular plan.

So actually 2016 in the US was a really a big year in terms of the progress that we've made towards building that sustainably stronger business that we target by the end of 2017.

We strengthened management in the US. We brought all of our Atlanta colleagues into one place under one roof in the centre of Atlanta, and that has really improved already the culture of working together in our US business.

In 2016 we also stood up the brand new data centre and delivered core EMV functionality for multiple verticals, and we expect that to begin to contribute to revenue growth in this financial year.

And in October a major milestone was reached with the launch of Worldpay Total which uses the SecureNet technology platform which we bought a few years ago. This will be significantly enhanced and further rolled out in 2017.

For the small business segment our focus is on improving lead generation and revitalising our sales teams, whilst also improving the customer experience through more automation, and delivering further product development, including greater mobile functionality. In addition, the focus on our Strategic Partnership channel will help grow our small business franchise through high-quality integrations with partners, delivering a strong product portfolio, like Worldpay Total, and that's absolutely key to the partners that we are targeting and selling to as we speak.

In the corporate segment we have again seen for many years strong consistent transaction and net revenue growth. And in 2017 we continue to see that continuing as we drive further down our verticalised approach, and potentially look at some new verticals in the course of 2017.

Our priority remains building a sustainable growth in the US business for the medium-term, and the investments we are making now in the US are much more focused on developing new products and services and functionality for our merchants, as opposed to investing in infrastructure and the platform.

To give you some sense of the scale of what we're talking about here, we expect the spend on new products and services for customers to be about six times higher in 2017 than it was in 2016, and we have over 50 initiatives that are targeting customer product services and innovations, and that's about four times the size of what we did in 2016. So that augurs well for the growth prospects in the medium term within the US.

That last point I'd like to make about the US is that the Group and Worldpay US are working more closely together than ever before, and we are supporting Kim and her leadership team with continued investment, both in capex and opex in 2017, as they look to accelerate their growth plans and improve their product delivery and their sales execution in 2017.

So with a review of the divisions let me talk about the next topic. We have a laser-like focus at Worldpay on the global B-to-B payments market. That is our specialism. And historically we have said that there are four critical success factors which we think will help us to deliver our strategy, that when you take them together, would really underpin our differentiated approach to the marketplace.

So what are they? First, to have unrivalled payment capabilities, delivering key outcomes for business merchants. Next, to have the broadest and deepest global network, enabling merchants to take any payment type, anywhere, in any currency. Thirdly, to have deep market expertise, understanding our customer businesses, having multiple routes to access them, and a culture of innovation. And lastly, central to this is to have an advanced technology and security proposition; and we have that with our proprietary platform and capabilities delivering outstanding performance as we speak.

In every single one of these areas we've made huge progress in 2016, and we are really well positioned, given the scale and depth that we have achieved in 2016, and the developments that we've got planned, to deliver in 2017 and beyond in a very significant way.

So let's take a look at products and propositions. As I said earlier there is a massive amount of activity in the business. We have more than doubled our launch rate of new features and functionality in 2016, and we have an ambitious agenda for 2017 also.

What's shown on this slide is just a small selection of the products, projects and initiatives that are underway, but let me just highlight a few areas for you.

We're making major upgrades to the alternative payment methods that we use, and we're also further extending our bankout products, delivering even more cost-efficient cross-border payments.

As I've mentioned before, we have previously under-indexed in the key category of reporting tools. But in 2016 we massively improved our proposition here and also gave our customers access to new world-class analytics and reconciliation tools.

We also launched new products such as Your Marketplace, the Worldpay Service Portal and My Business Hub.

At Worldpay we have hundreds of brilliant technologists who are constantly innovating right across the Group on a spectrum of products and propositions to improve outcomes for our customers. Which brings me on to developments in our global network and our market presence.

We're continuing to expand and deepen our global footprint to support our global customers. We're adding new licences in Brazil, Hong Kong, Singapore, Australia, and work is underway to develop more partnerships and secure licences across Asia, Europe and South America. This is being reinforced by further strengthening our resources in our regional offices, as I have already mentioned.

2016 saw us adopt a new Regional General Manager model in Global eCom, ensuring that we remain highly responsive to the needs of our customers in the five key regions. These regions will ensure that we lead business development, relationship management and implementation in a globally consistent way, but also ensure that we have the bandwidth to handle the expected growth, the kind of numbers that you see on this slide in front of you.

On Alternative Payment Methods we are continuing to add to our portfolio, with TenPay, BillDesk, Klarna and SEPA direct debit as examples in 2016.

Another initiative is the deepening of our verticalised approach. In the UK, in the US and in Global eCom we have created virtual Vertical Growth teams, to deepen our understanding of the opportunities and challenges of specific industries and embed this in our functional teams.

A final example would be, turning to the UK, we are bolstering our routes to market to ensure very high levels of customer service. So in 2017, as I said earlier, we're going to expand this online sales channel, which we see as a huge new distribution outlet for our business.

A core skill in Worldpay is capitalising on the opportunities that arise from emerging developments in our markets. We have historically flourished from the dynamism of our markets and the innovation that has arisen as a result of these developments.

A key development in our markets in Europe is PSD2, which is an important step in building a Digital Single Market, and which is due to be implemented during 2018.

Now on this topic we continue to work very closely with EU and UK regulators and our merchants on the implications of PSD2 and the details of its implementation. We are heavily engaged with them across a broad range of areas, which include, for example, the core technology standards and the verification of customer and consumer identity. The latest draft of the detailed rules issued on February 23rd has addressed a number of issues raised by us and other industry members. However we still have some concerns on the rules as they've been drafted and they may have a detrimental effect on the end-consumer and some merchants. We are continuing to engage with the regulatory authorities to address these.

Overall though if you step back, however, despite the undoubted need for investment in new products and services to address PSD2, we see many new opportunities arising from its implementation and from our role as a payments company, not just a cards company. This will help our customers navigate the undoubted complexity that will ensue in this new landscape.

A few examples here: We expect to help incorporate new payment types for our customers which will emerge over the next few years, as we do today for example: we have over 300 alternative payment methods today. Potentially we also see opportunities to help our customers to enter new markets, create their own new payment methods, and to deploy our very significant IT strength to solve some of the key technological challenges that will be thrown up by PSD2.

So turning to technology. It is the breadth of the development in our technology that is allowing us to address the changes of PSD2 and other things with great confidence. We laid much of that groundwork in 2015 and 2016, and we are now passing the peak of investment and delivering the four strategic components that you see on this slide. We believe the combination of these will enable us to offer another step change for our customers in outcomes and benefits that we can deliver for them.

So first, on the left hand side of the slide we will offer them the most modern scale acquiring platform in the world with high capacity and immense speed of innovation. Next, in the top diamond of the slide our next generation gateway will offer the most intelligent routing for the best commercial outcomes in terms of cost, risk and acceptance, as well as capacity and resilience for future high volume days such as China Singles Day and Cyber Monday. This will be a highly competitive scale offering on which we expect to bring in trials with customers at the end of the year.

The right diamond here points to our ongoing level of innovation, very high level of innovation in 2016 and 2017 and we plan to keep that going in the future. This was facilitated by our ongoing planned investment programme which is way above the industry standard. We expect during the year ahead to commence a customer trial of our research and develop investments in advanced technologies around identity and mobile based payments acceptance for example.

We're also targeting further developments in various other areas, identity and biometrics and payments in the internet of things for a few examples, as well as leading in the development of technology standards throughout the industry.

Finally on this particular slide, let me talk about Enterprise Data Platform. This is a crucial development for Worldpay, it will allow us to improve the performance of all the other platforms to enhance the acceptance and reduce risk for our customers. It's a large scale implementation of many of the latest Big Data technologies and is designed to transform our capability, to analyse action and report on data. And that will happen across the whole enterprise, as I said earlier.

The core capability is now built, it's taken us two years, and we're now being able to develop insights into three core areas. Firstly, Decision Services, using analytic techniques such as machine learning to understand the factors that affect payment acceptance and how we can influence in real time the payment process to ensure the best outcome for our customers.

Second, Consumer Insights, analysing our vast wealth of transactional data to provide our merchants with actionable insight on the behaviours of their customers. And finally, Technical Insights. By analysing system data we are able to pre-emptively address issues enabling us to improve the availability and the performance of our operating systems, again a key competitive advantage.

Now while we're on technology let me emphasise one key point here, the new acquiring platform. It is built, it is up and running, it's live, we already have thousands of customers successfully transacting on the platform and we continue to board hundreds every single day. However while full migration of all UK and eCom customers is technically possible in 2017 we have decided to amend the transition plan and have made a judgement call to alter the rate of migration. This will ensure that we maintain our current strong growth trajectory and the accelerating pace of product development, but also deliver on our new acquiring platform for our customers. So by the end of the year we now expect the majority will be on the new platform, not only a significant number of SMEs, but also some of our largest highest volume merchants.

For some of our more complex merchants the pace of further migration will be much more dependent on their preferences as many of them may not want to transfer in the main run up to the holiday season of 2017. So this will mean that some of these customers will now board onto the platform in 2018. You'll hear from Rick later while this will incur some modest incremental operating costs I do not expect it to materially increase our capital spend, in fact if you look at capital expenditure over 2016 and 2017 it's still within the guidance that we've been working to.

Finally, let me just spend a moment talking about our leadership team and the investment we are making in people. Over the course of 2016 we've continued to build our senior leadership team. We were delighted to welcome Karen Richardson and Deanna Oppenheimer to the Board who both bring extensive industry knowledge, as well as substantial commercial and financial experience to our company.

We've also made several changes to strengthen our Executive Team, drawing on the best talent from inside and outside the company. I think it's fair to say it's a sign of the momentum in our business and also the nature of what we're doing that we've been able to attract the world class executives such as Kim Crawford Goodman who was appointed CEO of the Worldpay US business late last year and Peter Jackson, our new UK CEO who is sitting in the audience today.

I'm absolutely delighted with the addition to our team, with the addition of both those people that have joined the Worldpay executive team, and I'm really sure that the calibre of people that we now have on our exec team will ensure that we deliver the sustainable success that we're targeting in our business.

Now, we continue to invest in our people, it's a consistent theme that I've described many times, and we're doing that to ensure that they have the skills that are needed to deliver for our customers, but also have fulfilling careers at Worldpay but also be able to grow with the business in a nature that I've described previously again. Growing at the sort of rates we have we have those investments that are very necessary.

To give you some sense of it some recent initiatives that are driving the high level of employee engagement include launching our first ever graduate scheme, our first ever return to work programmes, we've also sponsored over 40 colleagues doing a Masters programme on international payments; and in 2016 we launched our first Save As You Earn share scheme for all UK colleagues with a very heartening 60% take-up on that particular initiative.

As a business as I said we are absolutely committed to investing in people and we're very pleased to achieve a starred rating in the Best Companies Engagement Scores, a survey that we did last year. To give you some sense, again 85% of all our employees participated in the survey, that's up from 72% previously.

So 2016 was a very strong year for Worldpay. I'd like to hand over to Rick to take you through the numbers and then I'll come back and summarise at the end.

Rick Medlock

Thanks, Philip.

Okay, as Philip said, it was a very strong year in 2016, I think we came in a little bit ahead of analyst expectations and I think when we look at the business on a three to five year trajectory we're strongly on track to deliver our medium term guidance and again, just to remind you what that is, it's compound annual revenue growth of between 9% and 11% over the medium-term, with margins starting to expand which would complete the new acquiring platform.

And again, before we get into the detail I'd just like to remind you that back at the half year in August we did say that the first half had been an exceptionally strong period. We'd had some forceful tailwinds, we'd had some one-off volumes, particularly in the eCom business that had given that a very strong performance and we knew that the second half would be a tough comp because we'd had the one-time benefit of the changing interchange fees in the UK back in 2015, so just bear that context in mind when we look at the numbers.

On the left hand side of the chart we show the underlying result and that excludes the SDIs, the separate disclosed items, the exceptional items, the one-offs. And on the right hand side of the chart we share the reported numbers. And as expected there was a return to more normal levels of growth in the second half, particularly with some tough comparators on some metrics. I'm going to deal with the first half, second half differences as we go through the detail in a moment but I want to stress that we're really not particularly bothered by the differential rates of growth in any half year period.

The Worldpay business is complex, there are complex dynamics and we do get strong customer volumes, we get events and we get the impact of FX movements affecting the half year period. And I think overall we're very happy with the results that we've delivered in 2016 and the prospects for a strong 2017 and we've made strong progress against all our underlying metrics and we've got good momentum, both the top line and profitability and cash flow.

Revenue, net revenue and gross profit all grew by 15% and that reflects the strong volume growth that we've seen from new as well as existing customers and we've seen an improvement of spread, that's our take rate. Net revenue as a percentage of total transaction value, that increased by a basis point to 25.

We have benefited from the weakness in sterling, we translate our foreign currency revenues in our US business, obviously there's a benefit there, and we have the benefit of the eCom transactions in other currencies. And I'm going to comment on that later.

Underlying EBITDA was in line with revenue growth and we continue to benefit from operating cost control. You know we're making a lot of investment in the business, not just in capex but in people and capability in order to deliver that medium-term revenue growth target, so the costs have been rising.

In terms of modelling margin for 2017 we expect the first half as a tough comparator, we had some one-offs in 2016, but our guidance is we expect to deliver a modest underlying EBITDA margin improvement in the second half, the start of delivery of that operating leverage.

We've had a strong increase in 70% underlying profit before tax, and that reflects a strong trading performance, lower underlying finance costs, we did a refinancing at the IPO as you remember, and partly offset by an increase in depreciation and amortisation given the high capex we've seen. We've got a 25% tax charge on the underlying rate and that's improved profit after tax and EPS by over 70% as well.

On the right hand side the substantial growth with the underlying trading performance as well as the reduction in SDIs have shown that reported numbers are also extremely strong. And I think in terms of cash flow the increase there of £139m to £171m reflects the fact that we're starting to see stronger cash flow generation.

We ended the year with debt of £1.37bn and that excludes any cash that we hold on behalf of CVR holders. And this is a reduction of about £60m over last year showing the benefit of the stronger cash flow, but there is an offset because we've translated our foreign currency debt in euros and dollars, half a billion each in those two currencies into sterling and there's about a £60m hit as a result of that.

Net debt ended the year at 2.9 times our last 12 months underlying EBITDA, and that's within the target leverage range of between two and three times net debt to EBITDA and that's well ahead of the schedule that we expected at the IPO.

Moving forward I'm going to deal with the underlying performance and then I'll finish up with talking about the SDIs.

So we manage the business through these four key metrics: net revenue, underlying EBITDA, capex and free cash flow. I think on net revenue we've seen strong revenue growth since 2012, a compound annual growth rate of 12%, that's above the guidance going back to 2012 and that's particularly been strong in the last couple of years. This year the growth at 14.5% benefited from the devaluation of sterling post Brexit and if we translate our US revenues on a constant currency basis, i.e. restating last year's numbers on this year's rate underlying constant currency growth is 11%.

We've seen progression in underlying EBITDA and that's closely tracked net revenue, even though we've made a significant investment in our capabilities. And again, I want to remind people that back at the IPO in 2015 the expectation for EBITDA for this year was around £440m.

Capex continues to be high, as we're investing in all areas of the business but the main area of course is the investment in the new acquiring platform. Despite all of this free cash flow has improved substantially, mainly as a result of the growth in the business and the deleveraging.

Now in the future once we've passed the peak of capex investment we will see cost growth moderating, capex reducing and we expect to deliver strong operating leverage starting at the end of this year, and we should also expect to see significant cash flow generation in the coming years.

Let me now turn to one of my favourite charts, we showed this at the IPO, and this shows how the Worldpay business model translates into the P&L. So 2015 we processed nearly 15 billion transactions for our customers, an increase of 14%, same growth as in 2015, and about 60% of the growth came from the growth in the eCom division. Average transaction value continued to fall and that was driven by lower ATVs in eCom, because we've seen fast growth in our low ETV vertical markets like Digital Content and Retail and then in the UK where we're seeing grocery price inflation and increase in deflation and increasing use of contactless.

The combination of strong transaction volume growth, coupled with the fall in ATVs meant that transaction value grew at 12%, and I think there's four real key drivers for that. Firstly, significant volume growth in eCom, both with existing customers expanding internationally, geographically and more business moving online. Secondly, in the UK we're seeing more customers and more products. Thirdly, obviously the benefit of broader GDP growth and we've seen no impact from Brexit, and finally, the secular trend of the move from cash to cards.

The gross take rate remains at around 1% and that's of course an extremely broad average over the nearly 15 billion transactions of all business types. And that translates into £4.5bn of gross revenue, and if we net off interchange and scheme fees which of course are a pass through, net revenue is £1.124bn up 15%.

Net revenue gross profit and underlying EBITDA all grew at the same rate and we reported underlying EBITDA of £467.6m, and that's about a 41.6% margin on net revenue, an increase of 20 basis points on last year, slightly ahead of our expectations, we expected it to be flat and I think it's a real strong performance, particularly given the amortisation of the costs that we've put in in the second half of 2015, both in people and infrastructure and we've continued to expend money in 2016 investing in security and marketing and of course we've had a full year of public company costs now we're a PLC.

So if we look at net revenue, the headline is 14.5% but if we exclude the translation benefit in the US it's 11%, the top end of guidance. Now of course there was currency movement benefit in the second half, but remember that a good portion of our costs and some of our scheme fees are also denominated in non-sterling currencies. We also trade in eCom in a broad range of other currencies, not just euros, dollars and sterling and not all of which of those fell against sterling, and in fact some rose.

So in eCom FX translation, and it is very hard to estimate this precisely, it was clearly a benefit, and particularly in the second half, but it was partially offset by the headwind from the gateway outage that Philip talked about. And if we exclude the impact of both of these effects, growth in eCom was strong, particularly within our guidance range, even with the second half tough comp.

And we're pleased that the largest revenue streams showed the highest growth, that's card related income up 18%, foreign exchange up 23%, and both of these growth rates are faster than 2015.

Card related income grew in all divisions, strong performance in eCom, particularly driven by existing customers and new wins and the UK where we saw growth in customer numbers for the first time in a number of years and an increase in product penetration.

We did benefit in the first half from the reduction in interchange, and this was partly offset by increases in scheme fees and we've also taken the opportunity to restructure our pricing propositions in the UK. We've eliminated some of the irritating charges, so these charges that irritated customers, things like activation fees and security fees, and we've also simplified our pricing structure, introducing things like Pay As You Go, All You Can Eat and these are proving popular with UK SMEs.

There was a moderation in the UK's card related growth in the second half because the net benefit of propositions and pricing came in in the second half of 2015, so there was no net net benefit. However, growth overall was 13%, even with a tough comparative, and I think we're very encouraged going into 2017 given the progress we've made in net customer adds in 2016.

FX income, and that is the money that we make from FX translation and treasury business for our customers mostly comes from the eCom division and we saw very strong first half volume growth here, we had some unusual amounts of foreign exchange revenue there. Second half growth returned to normal, around 20% and that's even taking into account some of the gateway incidents which are a headwind. And I think we also benefited a little bit from FX volatility as well with the volatility around the Brexit exit.

Terminal rental fees are down year-over-year and that reflects the nature of the UK's changing pricing propositions, nothing to worry about here, terminals are now being bundled more into the pricing packages. Ancillary income includes gateway services which grew 18%, strong growth in eCom, particularly in the second half and alternative payments which grew 24% and the travel sector was here very strong as well. Overall though ancillary services grew only 4% and that reflects the pricing changes that we talked about in the UK with the elimination of some of those irritating charges.

Let me turn to the business units now. This slide shows transaction volumes in red, transaction value in grey, net revenue in green and then spread, i.e. net revenue as a percentage of transaction value in the ovals. At the Group level all the metrics were growing healthily, spread increasing by the one basis point that I mentioned earlier.

The mix I think also helps us here, obviously eCom growing faster where spreads are higher. I just want to comment a little bit, we've seen very strong increase in spreads over the last four years and I would caution against assuming that continuing to grow in the future, partly because we've seen the benefit of UK price changes, those obviously work their way through, we won't get any more tailwind from that, and also our move in the US towards more indirect distribution through value added resellers and ISVs will cause a little bit of drag as some of that margin is shared with those guys.

eCom transaction volume was driven by increases across a range of products and vertical. I think our most significant growth was in Global Retail and Digital Content. eCom's net revenues all together grew 22% in line with transaction value. And again reminding you we had some exceptionally strong growth in the first half, we were up 25% there. And that was as a result of those one-offs of FX business and significant volume from some big contracts that were repriced in the first half of 2016, so lower average prices on those contracts in 2017.

Those were contract renewals when we did that pricing and those renewals are going to lead to more business, more volume and more net revenues in future years. So the growth as expected returned to more normal levels in the second half and the benefit from foreign exchange was partly offset by the gateway. And I think there's been some question in some of the reports published already this morning, what is the underlying growth in the second half in eCom and we would comment that it's returning to the more normalised levels of mid-teens growth when you remove all the impact of FX and the gateway impact. So that's very strong performance.

And spread was stable at 32 basis points and I think that is a good result given the repricings that we've seen.

In the UK transaction growth was in line with expectations at 7%. We've seen deflation in the grocery sector and we're strong in that sector as well. And continuing use of contactless that's resulted in reducing ATVs, they're down 4%. So as a result transaction value all together grew 3%.

Spread improved by a basis point in the UK, with the improved customer proposition and also because growth is really occurring in the SME segment where our spreads are typically higher and we have had some benefit in the first half from the interchange.

UK net revenue growth was 8% for the year as a whole. Now the second half was showing 5% and that reflects a tougher comparative compared to the second half of 2015 because we got some price-changing benefits, some one-offs, remember the interchange I quantified that as a £10m - £12m benefit in 2015, about half of that was a one-off due to the timing of putting those changes through, so you need to eliminate that when you look at the second half to get the underlying growth.

In the US transactions volumes in the SME space were healthy at 7% and in Corporate at 8.5%; partially then being offset by our ATM revenues where volumes fell 4%.

ATVs in the US was stable in SME but declined in corporate and that's reflecting the petro segment where we're very strong. Spread in the US declined marginally, less than a basis point and that's more a mix issue with faster growth in Corporate segment where spreads are lower and a little bit of erosion in the SME space. And as you've heard Philip say US net revenue growth was 2% on a constant currency basis with our second half performance reflecting a slower than expected roll-out of EMV products and also our integrated omnichannel proposition, the Worldpay Total brand. These will make a stronger contribution in 2017.

And the second half also in the US saw an increase in scheme fees of around 10% which we weren't able to pass onto our customers in the period. And there was also a decline in the ATM business, albeit it's a small area of the US, nevertheless it had a negative impact.

We saw a position FX translation benefit from the sterling/dollar rate. And that took the 2% underlying rate in the US up to a reported 16%.

So let me know turn to operating costs. So the headline 14% up at a reported level is 10% excluding the translation impacts on the FX benefit. And this 10% increase in costs reflects investment to support growth in the medium-term across the whole business. In eCom we've expanded functionally and geographically and across the whole business we've increased our sales activity, our marketing, lead generation, product development and data and analytics.

eComs cost base grew 25%, broadly similar to revenue growth, mainly due to people and technology. And also remember that there is a foreign currency translation issue because eCom's cost base is global.

The UK maintained really strong cost control, even with significant investment in products and innovation. And total operating costs rose 6% although excluding allocations of technology and centrals they only grew 2%.

In the US costs grew less than 1% in constant currency terms, and actually fell 4% in the second half. And I think that reflects a very strong control of staff costs offsetting the increased costs from the office move and product development.

And FX translation on the US business mitigates the benefit that we saw at net revenue and the benefit to EBITDA on currency translation from the US is about £8.5m.

So if we now turn to the rest of the income statement. Underlying D&A is up higher amortisation reflecting the go-live of some of the big 2015 capex projects, mainly on gateways and product development.

So far amortisation on the new acquiring platform has been low to date, and at the end of 2016, we have in total about £350m of Assets Under the Course of Construction in intangibles and tangibles on the balance sheet of which the new platform is about £300m of those. So you should expect significant increase in amortisation in 2017 as these assets come into use and we will depreciate and amortise the new platform over a ten year period.

Underlying finance costs showed a significant decrease, mostly reflecting the change in the capital structure post IPO. Average cost of debt was 3.1%, the same as in the first half.

Underlying tax increased substantially, reflecting improved profitability. The effective tax rate was down to 25.1%, and I'd expect the continuing fall in this will reflect the guidance that we've given of around a 1% reduction each year for the next couple of years.

We've proposed a final dividend of 1.35p, which makes a dividend 2p for the year as a whole, and that is bang in line at the mid-point of our guidance range of a payout ratio of 20% and 30% of full year reported earnings.

Okay let's just turn to SDIs. So as a reminder Separately Disclosed Items, four main categories here: costs of the new acquiring platform; the separation costs from RBS and the dual running costs until NAP goes live; some reorganisation and restricting costs. And finally the amortisation of acquisition intangibles.

In 2016 we also saw further impacts from the completion of the Visa Europe transaction, and from foreign exchange movements on our debt.

EBITDA SDIs totalled £62.4m and principally comprised platform and separation costs, as well as some costs related to employee share grants at IPO, and other costs related to restructuring, mainly in the US.

Platform and separation costs in 2016 were about £5m lower than expectations, and that's purely down to the timing of migration on the new platform. And they're going to move forward into 2017.

So as a result, we expect a modest reduction in SDIs at the EBITDA level compared to 2016, and our guidance for 2017 is between £40-£50m and that's broadly in line with the guidance we gave in August last year, reflecting the deferral of the £5m into 2016. I do want to flag that the new migration plan for large complex customers has extended into 2018, and therefore there will be some SDIs on the new platform in 2018. And that probably pushes SDIs in 2018 up from the original guidance of £5-10m to £10-20m. So a modest increase of maybe £10m for 2018.

The SDI amortisation is the amortisation of the acquisition intangibles when the business was bought from RBS back in 2010, consistent with the guidance you should expect a similar charge in 2017.

Finance cost SDIs net all together £49.4m. That's a pre-tax gain of about £110m on the Visa Europe stake, and a charge of about £60m for movements on the US dollar and euro debt.

The tax adjustment is also affected by the gain on Visa Europe. And you should continue to expect movements in the value of the Visa Europe assets and gains on losses in FX to continue to be reflected here in SDIs and finance costs.

So let me finish up by talking about cash flow. So there was about £140m improvement in cash flow, very substantial and I think a pretty pleasing performance given that we're investing heavily in the business.

Capex in cash terms was £161m which is significantly lower than the guidance that we'd previously given and that's purely due to timing of payments and commitments. We're making no change to the overall capex guidance that we gave at the half year. And that was to spend between £340m and £360m of cash capex in aggregate over the two year period 2016, 2017 and then for capex to be 10% of net revenues in 2018. So even with the change in the migration strategy on the new acquiring platform there will be no change to the capex guidance. I want to make that absolutely clear.

In terms of working capital we saw a modest inflow and you'll probably be a bit surprised at that given the business is growing, that simply reflects timings around payments at year-end and we would normally expect a modest outflow and we'd probably budget for a more normal outflow for 2017 of between £15m and £25m.

Tax paid is significantly lower than the charge in the profit and loss account, which reflect deferred tax charges. And it mainly represents payments on account in the UK of £31m and of that about £4.5m relates to tax on our share of the Visa Europe stake.

So in summary we've delivered I think a very strong performance in 2016, good performance on the underlying and the reported metrics, and a significant increase in cash flow at the same time as a substantial investment in the business.

In 2017, we're expecting to deliver net revenue growth within our medium-term guidance range, even with the tough comp we will have in the first half, particularly because of the strong first half we had in the UK and eCom in the first half of 2016.

We do expect to begin to deliver stronger operating and cash flow leverage, including a modest improvement to the EBITDA margin in the second half. And as we bring the new acquiring platform assets into use I expect underlying depreciation and amortisation to increase but also we see a reduction in SDIs and our capex. And our guidance for the medium-term is unchanged at a medium-term guidance of 9% to 11% over the medium-term.

With that, back to Philip.

Philip Jansen

Thanks Rick. So let me try and bring it all together and do a quick conclusion.

2016 was a very good year for Worldpay. I think with the exception of some revenue softness in the US and the change in the migration plan for the platform every single other KPI is in excellent shape within the Worldpay business and overall progress has been very strong.

Encouragingly we've also made a really good start to 2017, in line with expectations, and our guidance in the medium-term again remains unchanged.

Our confidence in the outlook for Worldpay is supported by the great progress we've made on delivering our plan across customers, across products, routes to market, and across our people development as well. So all ails well for 2017 and the future for the Worldpay group.

What I suggest we do now is we open up to questions from the floor and then I think we might go to callers if we've got time.

Q&A

Question 1

Mohammed Moawalla, Goldman Sachs

First question was really on the US, I know the US has been a bit of a stop/start performer, how much confidence do you have around the reacceleration in 2017, I know that you've got some EMV compliant products coming, new management team etc. but I know in the past you've stated an ambition to grow the US eventually at a mid to high single digit rate? How realistic does that look for 2017?

And then obviously the margin and cost control was pretty good so how should we think of the US business? Is it more about protecting the bottom line and less growth or is there going to be a trade-off there as we think of the medium-term?

And just related to that I'm assuming there's no changes to want to hang on to the US and you're going to stick it out in that market so if anything strategically has changed there?

And then secondly just on the platform transition what's changed in terms of the platform capability? Have you added any additional things in there that are perhaps causing this migration to take longer than anticipated? And can I just clarify what you mean by complex customers? Are complex customers necessarily the same as large customers or just technically more complicated? And then to what extent does the outlook for 2017 take into account any risks from any further platform transition? Thank you.

Philip Jansen

Let me start with the US and as I said in my comments the revenue softness was a bit disappointing, no question, but in terms of the plan we set for the US they achieved almost all the objectives and the 2016 year was all about foundations and platform and infrastructure so that we can deliver a plan of sustainable growth. So the plan hasn't changed at all. You're right we are absolutely in there for the long haul. We believe we can get good returns for our shareholders from the US business but as we've always said it will take some time. So I think we said by the end of 2017 we want to be in a position to say we can see sustainable growth in line with our guidance for the US in the way that we've talked about eCom in the UK.

So there's no change there at all and I think Kim has come in as the new CEO and I think the encouraging thing is from a strategic point of view there's no questioning of that. I mean she's gone in, done her review, very happy that's it's executed very, very well.

I think the specific question about net revenue in 2017 we're not targeting getting to the net revenue number in 2017 and I think our main focus is the sustainable growth over the medium to long-term. So we're not saying, well let's try and make sure we get a decent EBITDA and make sure that the revenue is right in 2017, it's for 2018, 2019 and 2020, that's our real focus and therefore at the end of '17 we'll have a perspective on that and I've every confidence we'll get to the right place. Do you want to add anything on the US?

Rick Medlock

No I think you're right.

Philip Jansen.

Okay on platform, the thing on the platform, I think again are we a bit disappointed that it's costing a bit more? Yes because we are hard taskmasters and every pound matters at Worldpay. If I was looking from your perspective I wouldn't worry too much about it. Where I'd worry about it if it wasn't built and it wasn't working. So it is built and it is working. It's live. Thousands of customers, hundreds every single day joining the new platform, but it's just taken us longer and yeah that is frustrating.

Why has it taken us longer? It's not new functionality actually. The best way of describing it is we're trying to strike the right balance here of growing very, very fast, sustainably in the future and making a massive change in our platform programme. And the way to think about it is the platform's probably the longest pole in the tent for our growth ambitions so once we can get past it and get everyone on board with it, it will release even more potential which we'll need to maintain our growth we think.

So it's managing that balance and we have a very conservative approach, very low-risk approach to migrating and boarding customers onto the new platform. We don't want any issues. Our customers shouldn't notice it and they haven't. The new people who come on – perfect. In the last two weeks not a single issue at all. So that's why. It's taken longer to do some of the things that we anticipated but we're never going to try and go for a spurious date because it doesn't actually matter. I mean I drive the team and Rick drives the team hard on the extra spend but in the big scheme of things it's a £600m project and we're probably going to have to spend an extra £10m maybe on SDIs in 2018. But total capex for 2016 and 2017 is the same. So I hope that answers.

On large customers, I think like anything it's the more complex customers that are trickiest and it's just the same principles. We're going to be very risk averse, they're growing very fast, we're growing very fast with them. You can see some of the numbers, I mean look at some of the verticals they're growing 50%. Some of these customers are growing really fast. So they're adding new countries, they're adding new payment methods, there's a whole host of variables and we don't want to put that at risk at all. So inevitably it's the faster growing, more complex customers who I'm referring to. I'm not going to have some target internally to say, "You've got to join us by the end of 2017", I'm going to say, "When would you like to migrate or should we re-board you onto the new platform and get you all the new functionality immediately rather than migrate and then upgrade?"

So those are the kind of issues on a case by case basis. Have I answered all the topics you had?

<u>Question 2</u>

Stacy Pollard, JP Morgan

A couple of quick ones. The pricing environment and what impact do you anticipate from PSD2 and/or the regulatory environment at all? So, for example, on the pricing I was thinking about the two big contracts that resigned on lower rates last year do you see that trend happening more or we shouldn't necessarily be concerned about that. And then of course within the framework of regulatory.

And the second question can you talk about the EBITDA margins? You mentioned EBITDA momentum as you pass peak investment, I think that's the way you phrased it. So to what degree can you quantify that through 2017/18 by division? If you can give us some hence. And then please talk through the platform migration and how that might impact EBITDA margins, if at all.

Philip Jansen

On pricing, let me just again step back from a Group perspective. I think we recognise in Global eCom and in the UK we've got reasonably good pricing power, very strong positions. In the US much less so. It's about getting the right balance. Of course it's a competitive market in all those three areas.

If you look at 2016, our pricing approach has been to not just take price and look at it as one lever, but to get the proposition right. So whether we've been renegotiating large global eCom contracts where the price per bit of activity comes down possibly, and it has done in some cases, but the volume upside counterbalances that. Or the UK, for example, where there are a lot of interchange changes over the last 18 months. We took the view to rather than implicitly just put our price up and take some benefits, we reorganised the whole proposition in the UK. As a result of that, yes our margins have popped up a little bit, but our customers have never been more satisfied. We've never grown the customer base like we've seen before. We've never had retention like we've seen before. So that's why we feel so confident that the momentum will be maintained.

We probably could have taken more price, had a shorter-term benefit, but then we'd hit a headwind on growth in 2017/2018. That's not going to happen. The only thing I'd say to you is just look at our take rate. Our take rate as a Group is pretty good, nudging up, and actually if you take UK, US and eCom, all not bad. We recognise that in the US, just to get some balance to it, one of the reasons our revenue was softer than we would have liked, we couldn't pass on some pricing from Visa, and the EMV proposition wasn't strong enough so we couldn't really put the pricing that we would have liked. That's in summary what's happened. That's a pricing situation across the Group.

Ron, do you want to talk all the things we've done on PSD2 and the conversation we had with the regulators and how we see it, opportunity versus threat, that would be helpful.

Ron Kalifa

The PSD2 is undoubtedly a very important regulatory development in Europe. I think we all recognise that. There's a lot of people written about it. From our point of view we see it as a positive, and the positive is principally because: 1) we are a payments company, we're not a cards company. We process these 300 different payment methods, we just don't do credit, and we just don't do debit cards. The second reason is that the main focus of PSD2 is really about the way that the banks handle customer data and handle payments. That's where the onus is. So the onus is on the banks as opposed to on third parties or payment providers principally.

So, what do the banks have to do? Firstly, they have to share certain customer information with third parties, and those third parties can get that information if you as a consumer agree with it. The other reason from our point-of-view is that it allows third parties to basically initiate payments directly from a customer's bank account into let's say a retailer's bank account. Now, there are some seismic changes in terms of what that's actually doing, and as I said we are a payments company so we already do alternative payments as we call them, these 300 different payment methods around the world. So we know how to handle that, and we help our customers with the complexity that that entails. They don't need to have another terminal, they can integrate it into the same device that they've got. So I think we play a fairly significant part in that.

To Philip's question and point around the regulator. We've been lobbying the regulator very hard over the last five or six months. If you look at the latest draft that's just come out, for those of you that are that minded to read it, it's basically the final draft of what's called the Regulatory Technical Standards. There are six of them that have been issued, and the last one has just been issued.

The last one specifically dealt with something called Secure Customer Authentication. That's about the fact that for a transaction which is going through an eCommerce channel, cardholder not present, the threshold for that has moved from €10 up to €30. Now what that means is that if it's a transaction which is in that range, to €30, then basically you have to have another level of authentication put in. What will that do in practice? It'll basically ask the merchant or the acquirer through their systems and the technology to put in potentially a one-time password. It might ask for some biometrics, it might ask for some advance 3DS. So all of these things are things that we've implemented that in to the regulator, and introduced that to the regulator, and they've put it into the draft.

So what that's really doing is to sort of give you some evidence of the fact that we are at the forefront of helping to shape some of this really important regulation. But as I said at the beginning, this is a positive as opposed to something that we are concerned about. We've got the technology platform, we've got the scale to do it, and we've got the merchant base.

Rick Medlock

I think the question on the EBITDA margins, we would expect a modest increase in margin in 2017, but mainly in the second half. And obviously it's a tough comparator in the first half. Then from 2018 onwards we've consistently said we'd expect about a 1% increase in margin over the next few years as the net revenue continues to grow in our 9-11% range and costs don't grow at that rate.

<u>Question 3</u>

Adithya Metuku, Bank of America

I have three questions. Firstly, on the take rates in the second half. You had previously said that the eCom take rates will go down on a sequential basis because of renegotiation of the large contracts you did in the first half. They've actually gone up. So if you could talk a bit about the drivers behind the rates going up.

Secondly, now it looks like your US business is not going to grow in the high single digit range in 2017. So if you could give us some colour on how you expect the top line 9-11% growth to be split between the three different businesses?

And finally, on EBITDA margins. Again, if you look at the margins in the US and the UK businesses, they improve strongly in the second half on both a sequential and a year-over-year basis, and EBITDA margins in the eCom business declined on a year-over-year basis. So if you could talk about what the key drivers were behind the EBITDA margin movements in the different businesses and how you see that progressing in 2017?

Rick Medlock

Good point on the take rates. Clearly I think had we not had the FX benefit, take rates would have been affected by the re-pricings in the second half. So to some extent that helped that position. And to some extent it reflects growth in other customers that weren't re-priced, which is going well. It's a mix impact I think more than anything else, an FX impact there.

I think US growth rates, Philip said we probably won't get quite up into our mid to high single digits. Although in 2017 we should see growth there in terms of overall net revenues in the US. So we were sort of in low to mid-single digits in the US. I would expect us to be mid to high in the UK, and continuing to be mid-teen growth eCom in 2017.

Then EBITDA margin by the regions. That to some extent is less of an important issue rather than the gross position. Because the way that we look at costs, we have the direct costs which are run by the business units, so Shane and Peter and Kim have their own direct costs which is mainly sales, marketing, product delivery. Then we have our central costs, HR facilities, finance, and our technology costs, GTE, which are run centrally and then allocated out. In 2016, eCom has taken a higher percentage of those costs because their volumes have grown. We allocate those costs out on volumes or transaction values or revenues, depending on which they are. And obviously eCom growing its transaction volumes at over 30%, it absorbs a higher percentage of those costs. That is some reason why their costs grew 25% and the UK costs grew 6%. So I would look at it on the overall Group picture rather than the individual business units.

<u>Question 4</u>

David Mulholland, UBS

A couple of questions if I may on Global eCom. Obviously you mentioned very strong customer retention figures again for 2016. But can you just comment on whether obviously the issue with Etsy led to some short-term issues at the time? Did you manage to win customers back post that? You commented that you don't see any long-lasting effect, but I guess is that because you've won people back?

Secondly, on the customers paying for My Business Dashboard, again good statistics on the growth and the penetration there. Can we just clarify if people are still paying for that as a separate service?

And then thirdly on M&A, because there's a comment in the release that there was some aborted M&A activity in the period that there were some costs associated with. Can you just clarify whether you can say what was going on, and your appetite for M&A going forward?

Philip Jansen

David, thank you, three good questions. Global eCom. The customer retention, I've said it consistently that the above 99% is a staggering number. I still say to you at some stage we may lose a customer and that's just the nature of competition. But at this stage it's 99.9%, and it's a superb number. That is given the situation we had in 2016 half year around Etsy and various other customers, not many, affected by the HCG issue.

The really good news is – and I've got to underline it, Shane's sitting here in front of me – what his team have done and what the technology guys have done with that issue, and all businesses have issue, has been superb. The feedback I have got from our customers, including the CEO of Etsy, and multiple times I spoke to him I think last week, has been you had a problem, it was a bit of a nightmare for two or three customers, but the way we've handled it has been superb. And that's down to our customer service model, it's down to our people. I've always said we over-service our customers deliberately, it's in the cost base. That's where it paid dividends. Also, frankly looked after those customers. We can afford to, we did the right thing by them, and we gave what we felt was a fair response to it.

As a result of all that, the impact going forward is nothing to think about. Etsy, have they got another provider? Yes. But that's not abnormal. I think in most cases most customers have more than one provider. In most cases we're always the number one provider. With Etsy, if you take the total volume and total profitability, we're still the number one provider. Will we have to rebuild our trust with the small number of customers that were impacted? Yes. That takes a bit of time. But at this moment in time absolutely no impact going forward from the HCG. It was in our 2016 numbers, as you know. Did we win customers back? The volume will have taken some time to come back. That's in the numbers, as we said. But all the volume is back now. There is no ongoing impact from that issue whatsoever.

My Business Dashboard. Half of them are paying for it directly, the other half are paying for it through a portfolio through them buying a range of products and services where it's bundled in together. So again that's a very good outcome, we think, for My Business Dashboard. Again, as we've said before, that's like a Trojan horse, that's the gateway – excuse the pun – for a whole host of other new services in the future. So that's why we're ramping up the volume on the My Business Dashboard.

M&A. I guess what I'd say is the market impairments is consolidating. You can see that in various places, particularly in the US. Of course we're aware of it. Of course we track things. Of course we look at things. It's not been our highest focus, because I think coming out of the IPO we wanted to make sure that we delivered on our plan. I hope people feel today you can see more evidence of that in the numbers that we've delivered, and the confidence we have in 2017 and beyond.

So, as we pass the peak of investment and the platform and the technology's in a position that I just described, of course cash flow then suddenly begins to become something that we really think about and we want to put that to use in a good fashion. Inevitably there'll be further consolidation. All we can do is make sure we've got a great business, which we have, make sure it's growing really well, which it is, and it's a very valuable asset. No-one else has the footprint that we have. Nobody else has a global business in B2B payments like Worldpay.

Question 5

Charlie Brennan, Credit Suisse

Rick, just in your prepared remarks you acknowledged that there were some contention in the way in which people were going to calculate the underlying growth rates in eCommerce. Can you give us a very transparent view of what you think the constant currency growth was in the first half and the second half, and if you wanted to be generous what the add-back for the gateway outage was? Then just so we can get our models to match your comments, can you just give us the effective currency exposures for us to be able to model it for ourselves?

Rick Medlock

On the currency, we'd say that in the eCom business about a third of the net revenues are denominated in dollars, about 20% of them are in euros, between 25-30% of them are sterling, then a sundry range of other currencies of the 126 that we deal with across the world.

I think the impact in 2016, I won't give the specific numbers, but I would obviously say that we benefitted from the dollar ones, we benefitted from the euro ones. Albeit some of the volume that we lost on gateway for the interruption was mainly dollar, so the mix is slightly less than the 33% that I would expect because of that in the second half. And obviously we had the gateway offset. I think when we look at underlying rates, as I said I think we had a currency benefit in the first half, but we also had significant tailwinds from the one-offs in terms of FX that we saw – remember we talked about that – and some re-pricings. I would say the underlying growth rate is in the mid to high teens in the first half and mid-teens in the second half. That's the net position I would say. We would expect that to be mid-teens in 2017 as well on an underlying basis excluding any currency benefit.

<u>Question 6</u>

Gerardus Vos, Barclays

I've got three more if I may. On the growth for 2017, could you help us a bit in the kind of phasing between first half/second half, because clearly comp in the first half is tough. Is there a risk that you actually might drop below the range in the first half?

Then on the UK there was 4% volume growth in the second half, 1% pricing. Volume growth has stayed at the beginning of the year around 4% for the UK. So is that fair to assume a similar kind of pricing, so you end up around the mid-single digit?

Then I just wanted to come back on the US. Do you guys feel you have the right asset there? As Mo mentioned, it's a bit kind of stop and go. But for a global ambition it doesn't look like declined footprint is correct there.

Rick Medlock

I would say phasing in terms of growth rate at a headline level will be pretty similar, within our guidance range of the 9-11%, so I wouldn't at this stage say that it's going to be more phased towards the back end. I think we've started the year well. We obviously do get some currency benefits in the first half compared to the first half last year which are not there in the second half. But nevertheless, I think we're in pretty good shape to be within the guidance range in both of those half year periods at a reported and at an underlying basis.

What was the second question?

Gerardus Vos, Barclays

Short-term volume in the UK. Mid-single digits.

Rick Medlock

I would say the UK in terms of pricing benefit in 2017 there's a modest amount, but it's not to do necessarily now with interchange so much as the fact that just as we change the pricing proposition we bundle more things in, we've got Pay As You Go, we've got All You Can Eat, and the growth in SME growing faster than the growth in large corporate. So I would say your assumptions when you take into account volume growth, cash to card, as well as a little bit of proposition change and the new products coming in, I think we feel that the guidance range that we have of mid to high single digits we should be comfortably within that in both the first and the second half.

Philip Jansen

And, Gerardus, your point on the US. We're very realistic about the US. You're right, compared to UK and Global eCom it hasn't got the strength or position in what is the biggest market in the world. But it's a good asset which we think we can do things with to get really nice shareholder returns. Will it change its shape and profile over the next five years? Definitely. Will it improve? I really hope so and I really believe so, and deliver the kind of returns I talked about. So yes, I think there will be changes there. Right now we want to make that business as strong as it possibly can be, and there are plenty of opportunities to improve it, and we believe we can deliver in the line that we've talked about previously.

Question 7

Josh Levin, Citi

Could you speak about the strategic significance of the US operations? If you didn't have the US operations what couldn't Global eCom do or what couldn't Global eCom do as well?

Philip Jansen

Ron, do you want to talk about the opportunity for US and eCom and how we think about that, Global eCom, not domestic US eCom?

Ron Kalifa

So as you know we have a really strong position in terms of our Global eCom capability. We serve circa 1,250 very complex merchants around the world. They can be airlines, they can be digital goods, gaming, retail, travel etc. Those are the verticals that we've set up.

We tend to do the majority of their volume for non-US activity. And what we want to do is basically take an instance of the platform that we are working through now, move that into the States and use that as the catalyst and the driver to basically grow the US volumes. So in other words get the volume for the same customers for the US activity that we currently don't have. So if you think about it that way that's a strategic goal of ours.

Why do we think we'll win in that? Simply because of the fact that we are the only one that has got the largest network of payments – we talked about that earlier – these licences and these 300 different payment methods. Those customers are currently desperate to have one set of reconciliation, one set of settlement files. They don't want the complexity that is associated with that.

The other piece is that we've got the expertise by verticals, and we're helping them in other markets and it makes sense for them to have that once we've got the capability built in the US.

And thirdly I think the technology that we've got will translate across into the US. It's much harder for people who are in the US to actually build the capability outside the US than it is for someone who's already outside the US to go into the US. So there's a lot of work to be done to that but that's essentially the strategic rationale for what we're trying to do.

Question 8

Andrew Humphrey, Morgan Stanley

One on PSD2 if I may. I just want to talk about any investment that may be required there over the next couple of years. You clearly talked about how you're helping customers work through that. To what extent should we be thinking about that as a fairly sizeable chunk of capex in 2017, declining in 2018, versus say an ongoing part of the 10% that you've already guided for from 2018 and onwards?

Secondly I wanted to ask about Worldpay Total. Clearly you've seen a very successful introduction in Worldpay UK and really strong customer traction there. Do you still have a sense of customers in the US that you're still slightly playing catch-up in that product group? And I guess how is the early reception from US customers for that product?

Philip Jansen

I'll do Worldpay Total quickly and the US situation, and Ron do you want to do PSD2 and talk about the numbers?

You're right to point out the UK has been a spectacular success in Worldpay Total and we're really, really pleased with it. The numbers speak for themselves. But you need to go back two years, and let me tell you that the technology that delivered Worldpay Total was something we bought about three years ago, and after about a year it was very, very tricky – this is the point-to-point encryption technology that allows omnichannel integrated payments in the UK. So it took us a long time and a lot of heavy lifting with a lot of difficulty to get to the product that we've got now, which now wins hands down in the UK. We've got to keep moving forward but it's a brilliant product.

You are right, the US Worldpay Total product is nowhere near the UK proposition, and is behind what we need in the US marketplace, but it's a start. I think we have seven customers connected to it right now, and that will expand very significantly throughout 2017. But it's a good proxy for what we're trying to do in the US. So we're investing heavily in the infrastructure, the foundations, the platform that makes a Worldpay Total product potentially work. It's in a live proving testing with these seven customers where we're getting feedback from them of how we should change it and amend it so we scale it. And if it works we'll have similar success, maybe not the 40,000 outlets in the US rapidly, but it'll have the same trajectory and momentum that we get in the UK for the US.

And that also gives you a sense of the connection between the UK and the US and eCom. Worldpay Total is now in three different categories: US, Global eCom and the UK. In the future they'll all come together and be one proposition with one platform, delivering for our customers, and then we'll get real benefits of scale. So the way you ask the question and the inference you give is correct.

PSD2, a bit about the products and what kinds of products: I think what kinds of products could we see us doing and what kind of investment would that mean?

Ron Kalifa

I think, just to reiterate what I said earlier, that it is a positive from our point of view. We're well positioned.

The standards, the protocols, the sorts of definitions in terms of what actually is required from PSD2 is yet to be put in place. So it's still work in progress from the EBA, the European Banking Authority, and as I said earlier, we're at the heart of some of that.

The second point that is worth making is customer adoption in the industry tends to take a long time, so the reality of anything happening in the due date when this is supposed to be implemented, and the implementation at the earliest would be in November 2018, but the more likely scenario I think is somewhere 2019 onwards. If you look at SEPA as an example that is about six years later than it was originally meant to be implemented, and this is infinitely much more complicated.

The products that are worth thinking about are principally around fraud and security. So, we already have a very good fraud product. It can be better, but the reality is that it is a good fraud product. What it does it looks at spending patterns, it looks at spending behaviours, it looks at the merchant location, looks at the consumer location, and does a lot of velocity checking against a set of parameters that we've already put in place.

So, that might be a product that actually would be more widely used and available as part of PSD2 as an example.

There are other types of products that we're working through with other third parties where if another payment method emerges, let's say here in the UK, then we would be again well positioned to be able to provide that. We already provide 300 different payment methods. So we understand how to integrate these things, and more importantly from a customer's point of view, from a merchant point of view they don't want the hassle of having additional payment providers in the value chain. So just given our scale and given our capability I think again we are relatively well positioned.

So I think the cost of implementing this is going to be relatively modest; that's our assumption based on what we know so far. But as the world unfolds, which will be over the next 18 months or so, we'll be able to talk more knowledgably about that.

Rick Medlock

Yes, and I think in terms of capex guidance we obviously have existing products; if they need to be modified to accommodate new payment methods that come out of PSD2 that's in the product development roadmap. And always there's this prioritisation: what's more important, what would we do?

Clearly if something new as a totally transformational new product that was needed in the market that we saw a big opportunity for then clearly that would be a different business case in and of itself. We don't see that at the moment; no expectation of that. So where we are today no change to capex. If something new comes along we'll update you and say, "Right, this is what we're going to do, this is a great product, we're going to invest in it and here's why".