Worldpay Group plc - 2015 Full Year Results

Analyst and Investor presentation - Transcript

Tuesday, 08 March 2016

Sir Michael Rake - Chairman

Good morning everyone. It gives me great pleasure to welcome you to our first set of financial results as a public company. 2015 has been a year of significant progress for Worldpay. We have delivered a strong financial and operational performance across the business and very shortly Philip and Rick will take you through our Group and divisional progress in more detail.

We further strengthened our technology capabilities, have substantially completed the build of the new platform, and are continuing to roll out new, innovative products to our customers.

And of course, we successfully listed on the London Stock Exchange in October, and with that put in place a significant new bank financing, thus further strengthening our capital structure with our first bond issue in November, which raised €500 million.
At a time when there is increasing volatility in the financial markets, our performance today demonstrates more than ever the robustness of our business model, which is capable of delivering strong, visible and recurring shareholder returns. Furthermore, we are building for a successful future and ensuring that we have the right strategy, governance and culture in place, and the capital and technology to support our future growth.

We have already made further progress in 2016. We remain committed to investing in our people and our technology while driving our strong pipeline of innovative products and services forwards to help our customers prosper.

I will now pass over to Philip to provide a review of 2015. Thank you.

Philip Jansen - Chief Executive Officer

Thank you Mike, and good morning everyone. I terms of the Agenda today, I will take you through our performance for 2015 and then I will hand over to Rick, who will give you some more detail behind the financials and our guidance, which remains unchanged.

Before I get into the detail, by way of an Executive summary, 2015 was another good year for Worldpay. At a Group level, we delivered exactly as we expected and as we had guided at the time of the IPO. However, there were, as ever, ups and downs within each division, and the US was disappointing, it missed its target, but the UK and Global eCom outperformed very nicely.

On the technology front we had a very good year, upgrading, improving and launching new products, whilst also delivering the key milestones on the new acquiring platform.

So, why was 2015 another successful year for us? Well, we've continued to strengthen and build our presence in the areas where we see the best growth opportunities. We've invested in our capabilities, we've invested in innovation for our customers, and we've invested in the new technology platform.

As Mike has already mentioned, it was also an important year for us in the financial markets, the IPO, new bank financing and our first bond issue. Given the sheer scale of all this activity in our business and in a transitional year, it is pleasing that we have delivered strong financial results, in line with the expectations we set at the time of the IPO.

Again at the time of the IPO we said that we have a robust and attractive business model, with great visibility, and we see many opportunities to deliver strong growth over the medium term.

In terms of the actual financials, I think the highlights for me say it all. Fundamentally, we have strong, and very visible, top line momentum. In 2015, transaction volumes reached a record 13 billion, up 14%, generating a total transaction value of some £402 billion, up 9% against 2014. Now this translated into net revenues up 14% to £982 million, and gross profit up 12% to £860 million.

As I said earlier, we continued to invest heavily in 2015, with overheads up 16 per cent and capex up 18%. Even with this investment, we saw good growth in EBITDA, up 8%, and in cash flow, which improved by £32 million.

So, before I look at 2015 in a bit more detail, let me spend a moment our two on just looking at what's happening in our markets.

There's no doubt, and I think many of you know, that payments is becoming more complex for our customers, whether they are large or small, operating online or on the high street. They are seeing more convergence, with consumers wanting a seamless experience across all the ways they shop whether it is online, on their mobiles, or in store.

Mobile is becoming ever more important, both for payment, and as a form of identification. Consumers on the other hand, they are becoming more demanding, they are expecting better payment pages on websites, wanting and needing new ways to pay, and this is raising their expectations on what merchants should be delivering for them, in store and online.

Merchants, on the other hand, they want more insight**,** they want to deliver a more personalised experience to their consumers, with targeted recommendations and promotions, for example. And, indeed, the markets we operate in are becoming more international, with cross-border retail growing fast, driven by the growth of online and mobile shopping.

Finally, security, as ever, remains absolutely non-negotiable, and is increasingly top of mind for both the merchants and consumers. So this is an increasingly complex and dynamic market. And against this backdrop, the five pillars of our strategy that you can see on the slide are designed to simplify as much as we can for our customers, and maximise the benefits of our strong competitive position.

Behind these strategic goals sit our five core capabilities; acquiring, gateway, treasury and foreign exchange, alternative payments, and managing fraud and risk, all facilitated by our technology and delivered through many individual products. And in simple terms, each of these products benefit our customers in one or more of three ways. We either help them increase sales, lower their costs, or reduce risk and fraud.

Using our differentiated products and capabilities we are targeting segments where we see the strongest growth opportunities, and diversifying our customer base by vertical, by customer type and by geography. And we expect that realising the full potential of our business model will result in sustainable, recurring growth and profitability over the medium term. And the strong cash flow that comes from that will allow us to continue to reinvest into our business.

Now one area that will see continued investment which I have already mentioned, will be security, which we focus on at Worldpay at every level. This is absolutely crucial for our business and it is also crucial for our customers, and our rigorous commitment to it is at the heart of the Worldpay culture. It is led by the Board, under Sir Mike's guidance, and it is a measure of the importance that we attach to security that it is discussed at every single Board meeting. Our procedures, governance and controls in place stretch across the whole organisation and we expect each of our 5,000 colleagues to follow them.

We are absolutely committed to the highest possible standards of security across the Group, and accordingly we increased our spend in 2015 and will be upping the spend again in 2016.

Now let me turn to each of the divisions in turn. Let's start with Global eCom, where our business model and focus on key growth verticals drives high recurring revenues from an extremely sticky customer base. In 2015, we saw strong growth, driven by a substantial increase in transaction volumes up 31%, with revenue up 17%, and profit up 14%. Global eCom, as many of you know, is focused on the target verticals of airlines, digital content, travel, retail and regulated gambling, and we are seeing strong, balanced growth across each of these segments. And we're capitalising on this growth, winning customers through new and updated products, which deliver for our customers, more sales, lower costs, and less risk or fraud.

So in 2015, we launched a number of new or significantly updated customer propositions. First, to deliver better acceptance rates for our customers, we launched updated hosted payments pages**,** which for example, delivered a 7% acceptance uplift for one global retailer, and client side encryption, where we've seen particularly strong demand for customer launches in the Travel and Digital Content verticals.

Elsewhere, we have also updated our Risk Guardian product to help reduce fraud rates and bring cost savings to our customers. I'll come back to that later on in my talk.

New in 2015, also we established a new data team**,** helping to deliver for our customers, improved analytics. This can make a huge difference to our customers. I mean, for example, after much analysis, a big global merchant in India, we advised them not to switch their currency settlement from rupees to US dollars, and that in itself made sure they avoided a 15% reduction in acceptance.

And, as ever, we're continuing to deepen our market presence still further by obtaining our own acquiring licences both in Japan in 2015, and in Canada earlier this year.

As I look forward to 2016, we're not only seeing good growth in our existing customer base, we're encouraged by the level of cross-sales we are experiencing, and we are starting the New Year in a good position in terms of new business.
On this slide you will see just two examples of the benefits we're delivering for our customers, in this case, using our anti-fraud and risk tools, which include the already mentioned, newly updated Risk Guardian.

Let's take China Southern, which is actually the sixth biggest airline in the world**.** And this is a compelling example of the kind of value that we can bring. Using Risk Guardian, we helped improve their fraud and chargeback ratios by an astonishing 85%, while at the same time increasing their acceptance rates by 3 percentage points. These are big numbers. And now when we roll-out their global websites, we're helping them enter new markets and help optimise their evolving payments strategy.

And the next example is for our Canada-based Kobo, which is a subsidiary of the Japanese e-commerce retailer, the giant called Rakuten. Kobo has about 20% of the global e-book market, and we were able to help them reduce their chargebacks by 95% just in a few months in fact. So this is now allowing them to confidently plan their expansion into other new markets and for them, our new acquiring licence in Canada will allow us to now manage their online payments in that country, processing and acquiring in the way we do elsewhere.

Our strategic focus for growth in Global eCom remains unchanged in the way we described it at the time of the IPO. We look to win in well-defined segments or sub-segments within our target verticals, an example being software, publishing and video games within Digital Content, and over time we expect to add further verticals as we build our expertise. The strategy to help customers prosper by understanding their industry nearly as well as they do is definitely a winning approach.

We will continue to deepen our global coverage, particularly in Latin America and in Asia Pacific, including China. In some cases, we are seeking our own domestic licenses to capture the full economics of the payment system. Elsewhere we will work with existing banks and partners to gain access to the market. We are also deepening our payment capabilities, by extending the payment network to new payment methods like Klarna and also supporting the latest wallets. We are working with Visa and MasterCard on secure tokens to protect cardholders, and further upgrades to Risk Guardian are in the pipeline.

We will help our customers increase sales, reduce costs and reduce risk by using superior analytics based on new technology and using fruits of our investments in innovative start-ups such as Pazien, for example.

Our customers, as I am sure again you know, are now learning how to adopt to an internet technology area where they are looking for seamless shopping experiences both offline and online. We are seeing real demand now from our Global eCom customers for an omnichannel offering. So as a result we will be extending our proposition in that area globally starting in Europe within 2016.

So in Global eCom, we have the most extensive product set and broadest global coverage. We are going to continue to invest to make it simple for our customers to access and manage hundreds of payment types, dozens of products, in multiple currencies and countries.

Now let me turn to the UK. The UK's performance in 2015 was extremely pleasing, with revenue up 11% and profit up 15%, although of course within that there was some benefit from the new interchange fee regulations.

SME retention and new customer boardings were both up in the year, and I'm also very encouraged with the progress we have made on innovation and product development in multi channel and eCom, which are really transforming the payments landscape within the UK market.

We've seen a great take up of our products in the SME space, with a strongly positive response to My Business Dashboard, which will see a broader roll-out in 2016, and a much improved penetration of eCom solutions, and also a positive reaction to the early pilot of My Business Hub.

Another success in the UK has been the take up of our Business Finance initiative, in partnership with Liberis, the UK's leading provider of cash advances to small businesses, who are providing crucial funds top small businesses to invest in their business so they can help grow their own business. We launched the product at the end of last year and already our customers have received more than £2.5 million in committed funds, with over a million advanced in February alone so that is really beginning to take off as well.

And we're also making great progress in omnichannel, across the small and larger corporate space, using the capabilities we bought from a couple of years ago in one of the key acquisitions that we did at the time.

And all this is driving customer wins, both from SMEs to larger corporates including high street names such as Jigsaw, Harvey Nichols, Martin McColls, Jockey Club and Snow & Rock, and expansion of our relationships with existing customers such as Arcadia, HMV and Autoglass.

So let's have a look at how this progress and innovation is benefiting our customers.

In the larger corporate space, our omnichannel offer called Worldpay Total is getting real traction. A good example is World Duty Free, who needed a flexible, cost-effective way to take payments not just at the till, but throughout the store. They used our Worldpay Total Mobile solution, which is a payment app on a tablet which connects to a portable card reader, so consumers can make purchases quickly and easily wherever they are in the store. This has reduced queues inevitably, and also the number of lost sales, but what is really important is the average transaction value has jumped by a staggering 40% on the mobile devices compared with sales on the main tills. There have also been many fewer abandoned purchases as a result of the launch of Worldpay Total.

Importantly, Worldpay Total is also benefitting our large corporate customers. It is also revolutionising the way payments are made for many of our SME customers, and helping them move their businesses online. For example, let me talk about the English Cream Tea Company which sells hampers and confectionery by mail and on the phone, and we helped them build an e-commerce presence. The results then again are truly extraordinary. So they had an increase of 500% in sales in one quarter alone, as a result of our Worldpay Total solution. Now they are eyeing international expansion behind our product set that we explained to them over the last few months or so.

Turning to our UK strategy as you expect, the strategy in the UK is focused on our customers' needs. In larger corporates, we will take a verticalised approach, similar to eCom, using our knowledge to address the specific needs of industry groups within areas such as retail, travel and leisure, food service, grocery, financial services and government.
Again, analytics will be important, increasing sales as we move forward, and our omnichannel offering through Worldpay Total, as you have seen with the World Duty Free example, will be a powerful tool.

And we will also seek to build greater and deeper partnerships to enrich our customer offer, through establishing a dedicated partner management group which will target these key growth segments, using the power of cross product selling we have used elsewhere.

And in SME, we will transform the payments landscape for our customers, through the roll-out of the dashboard, extending the Hub's presence following a successful pilot, through more ecom, and, of course, through making sure our customers get the best service through our "Brilliant Basics" programme which is proving very, very successful.

If I turn to the US, where results have not been at the level we would have liked as I said earlier. As you will remember from the IPO, our US business is undergoing a strategic shift, and whilst there are positive signs, that costs of managing the transformation of the business have been higher than we expected. Nevertheless, given signs of a more encouraging operating performance, we are confident we have the right strategy and we will continue to invest in the business in the US business in 2016.

Floris de Kort, who previously led our Global eCom division for five years, has taken over the leadership of Worldpay US and will focus in 2016 on the execution of this strategy. We believe this will deliver sustainable growth in the future, but will take longer than previously anticipated to achieve, and will incur additional costs as a result.

Importantly, as I said earlier, we have seen some progress in 2015 within the US business. For example, our corporate business grew transactions at double digits and for the first time in five years we actually grew our SME customer base as new SME merchant acquisition outperformed against budget and attrition continued to improve. Overall transactions increased by 9%, we've signed 82 new strategic partners, and we are also are progressing well with the SecureNet integration.

For our customers in the US, we are finding a particularly strong interest in our integrated services that help national corporates to streamline their processing and enhance the offering that they provide to their customers.

Let me give you a few examples. Firstly, CiCi's, it is a well known restaurant chain, it is operating in 32 states. We have taken down the number of providers they had from six so now we are the only one, we have driven operational efficiency for them, helping to create a more standardised customer experience across their franchises .

As part of our work, we have also helped point-of-sales systems in areas where they could not get them before. Many locations have no point of sales systems as all. This is just one example of how we can help lower their costs, and in that case, that was 25% just from one move and getting to one provider versus the six.

Buzztime which is an entertainment provider to restaurants and bars, is another example of a new partner through the partnership model I described earlier. We have been working with to help them to help grow in the US and internationally. They are growing fast and handling lots of different currencies. So we have and will make a difference in supporting them through our gateway in the US, Canada, Mexico, and South America, and help them put their products into new bars and restaurant chains with an innovative tablet-based solution that also includes an EMV offer.

As I mentioned, we will continue to invest in the US behind our strategy to further improve our capabilities and the product offer. These will principally be enabled through our improved integrated payments offer, and a stronger range of partners, who we will look to bring on through nurturing more successfully with more proactive relationship management as per the Global eCom approach I described before.

I also expect that over time better reporting and portal access, alongside the completion of the EMV roll-out, will enable us to market to more complex corporates than are currently in our sights.

These initiatives will be backed by a rigorous focus on key verticals in larger corporates, further product and analytics developments, and a stronger technology backbone in new data centres and phone technology which will help improve customer service.

Before I hand over to Rick, let me just now say a few words on where we are on the new technology platform. As you know, the new technology platform will deliver significant enhancements to our agility, flexibility and efficiency. We are on track compared to the expectations we set at the time of the IPO, and I'm pleased to be able to say that we have now migrated the off-host servicing and data applications to our systems. That means that only one component currently remains in RBS systems and that is the clearing and settlement mainframe.

We have now completed the build of the core platform of that new system to replace the old one, and we expect to start boarding our first customers onto it in the summer of 2016. Subsequently, we will start a migration and there will be a substantial and challenging migration by definition, given the numbers of customers we have. So it will take some time to complete. So our plans are that we expect to complete it within a year of a customer launch.

With that, let me hand over to Rick and I will come back to close out in ten minutes or so.

Rick Medlock – Chief Financial Officer

Thanks Philip and good morning everyone. I will now run through the financials. Now you know we IPO'd back in October, nine months through the financial year. You know that Worldpay has a highly recurring, predictable business model. So hopefully what I am going to share is not going to have any surprises in and frankly, hopefully it is pretty boring! So let me go through the headlines.

First of all a word on the format. We are sharing both reported and underlying and the difference between that is the separately disclosed items. So the underlying excludes those and is really more reflective of the try underlined performance of the business.

I think we have seen great top-line momentum, we have got improved profitability and cash generation and that is despite significant investment in the business during the year as well as surviving the transition from private equity to public ownership.

We have seen, I think, strong progress on all of the key metrics there. Revenue, Net Revenue and Gross Profit momentum is really about volume growth both driven by existing customers as well as new customers wins, and spread which the definition of that is net revenue as a percentage of total transaction value, actually grew from 23bps to 24bps so that has been very helpful.

We are pleased with the EBITDA growth, it is bang in line with consensus and although it is only 8.4% and lower than gross profit, this is really a reflection of the very significant investment we are making. It is actually I think a testimony to the strength of the business model that we are seeing top line revenue growth which is enabling us to fund that very significant investment which supports the business for the medium term.

Underlying profit before tax before tax growth reflects both strong trading, as well as underlying D&A which is actually lower than the previous year and also lower finance costs.

We have also seen declining tax rates, and that has allowed us to have profit after tax at 51% and EPS up by a similar amount.

Net debt is where we said it would be at around £1.4bn, with cash flow better by £32m due to the improved profitability as well as a positive working capital move. The net debt has changed substantially from the pre-IPO world, where we had six times leverage. We are now ending the year with about three and a half times last twelve months EBITDA. And so now I am going to go into detail on the underlying performance and come back and talk about separately disclosed items and finally Visa Europe.

So turning to the next chart, and these are really the four key metrics that we use to manage the business. Net revenue, which is defined as gross revenue, less interchange and scheme fees. Underlying EBITDA excluding SDIs, Capex and free cash flow. And I think you can see here that we have delivered yet again very consistent revenue and EBITDA growth all the way back to 2012. And in 2015 we were exactly in line with our medium term guidance and exactly in line with consensus. And remember, we said to you at the IPO we are at the moment deep into a substantial investment phase and we are choosing to make a significant investment in the business. Capex is up 25% compared to 2014, and most of that is due to the new platform and technology investments.

Coupled with this, we are also making significant investment into the operating costs in the business, both in sales, in marketing, in technology and operations both to position the business to sustain the growth that we expect to deliver as well as extending our leadership over the competition. And reminding you again that we are expecting that both capex and operating costs associated with this investment will slow down and reduce starting in the second half of 2017 and that is where you should expect us to deliver operating leverage and stronger cash flow.

Free cash flow actually in the year has improved despite the increased investment, and it is worth noting that we haven't got much benefit from the new capital structure, that only came in place really ten months through the year and it is only limited benefit this year. You will see full year impact of that in 2016.

So moving forwards, let me take you back to a favourite chart from the IPO Roadshow which maps the business model onto our P&L. So we have got 400,000 customers, and in 2015 they generated over 13 billion transactions, an increase of 14%. Half of that growth came from eCom and a quarter coming from the UK and US. Now you can see that average transaction value has fallen, but don't be worried about that. There are three reasons for that. It is absolutely as expected. First of all it is the increased use of contactless in the UK, which is really gaining momentum. Secondly, the faster growth of eCom, where average transaction values are lower than the other two businesses. And thirdly, particularly in eCom, the growth has come from fast growing segments of online, digital and games, a lot of small value transactions. The decline of 5% that we saw in the year, actually is lower than last year's 7%. So overall total transaction value and gross revenue, both up about 9% year over year.

Net revenue growth was faster and we have earned a greater share of the transaction value by delivering more value to the customer, with spreads improving from 23bps to 24bps. As a result of two factors: Firstly a mixed impact global eCom has higher margins in the low 30s bps, that is growing at 17% and in the UK where we have improved our spread from 19 to 20 bps, both improving the proposition, selling more into the SME space where margins are higher as well as benefiting from lower interchange costs.

Gross profit grew in line with net revenue. And operating costs are up a headline16% but when you exclude the impact of acquisitions and FX translation impact of the US dollar costs, we have actually got an underlying 11% increase in OPEX. And that mainly reflects employee growth, we have added 500 people on average during the year to end the year around 5,000 people employed and also we have made significant investment in product, marketing investments to support the growth. And that also includes the annualisation of the investments we made in 2014. I am going to come back to our investments in a moment, but all in all this has delivered both a healthy margin and good EBITDA growth.

So let me now delve into the drivers of net revenue growth. Net revenue was up to £982m, up 13.7%, but when you exclude the 10.7% from acquisitions and the £17m from the FX impact, underlying growth at 10.5% was where we came out. The biggest contributor to growth, as you would imagine because it is half our revenues is card related income, up £60m, that is 13% on a constant currency basis. So we are very pleased with that.

Card related income grew in all divisions but particularly in Global eCom and the UK which both benefitted from growth of existing customers and new customer wins. And in the UK as well, the interchange benefit helped.

FX income is mainly from the Global eCom division, and we saw strong volume growth in volumes here and that reflects the increasing internationalisation of our largest global customers in eCom as well as our expanding global reach. And if we add the FX income also generated in the UK division, growth in all was 19%.

You can see there was a small decline in Terminal revenues. That really reflects the increase in penetration of Global eCom in the UK. So selling slightly fewer terminals and also some pricing changes that we made in order to retain some of our most profitable customers.

In the ancillary services line, Gateway fees in there, which grew 20% that is really due to strong volumes in Global eCom and more increasing penetration in the UK business with

Global eCom customers. We also saw strong volume growth in Alternative Payments and Risk products and as you know, we continue to invest and develop those to support global growth.

On the additional slide, on the right of the underlying, the FX translation was worth £17m on a net revenue basis or £13m at gross profit but of course there is a partially offsetting increase in costs as well as you will see in the operating cost line. And then the £10.7m of acquisition revenue comes £9.4m from SecureNet and £1.3m from Cobre Bem.

So let's have a look now to the divisional performance. So the good news here is that we have seen strong transaction volumes, transaction value and net revenue performance across all divisions. The net revenue to transaction value ratios have improved or remained stable across each business. In eCom we have seen volume and transaction growth and that is driven by as I said, existing customers and new customer wins, and the segments that have shown strong growth are Digital Content, Travel and Global Retail.

The mix issue is really about growth in Digital where we have seen strong performance of some very large customers like Netflix and AliExpress, and they have typically low average transaction values particularly in Asian and that has a dilutive mix impact on average transaction values and that is why transactions are up 31% and net revenues up 17%.

In the UK, transaction growth is as expected, transaction value growth has been impacted by the high street competition and in particular the price war in the grocery sector where we are very well represented. And average transaction value is also impacted by the increasing use of contactless cards for low value transactions.

UK spread has shown the best improvement of all our divisions, reflecting the improved customer proposition focusing on SMEs where spreads are higher there typically, and we have also benefitted from lower interchange costs. Although I want to stress that we have passed on the vast majority of these interchange reductions to our merchant customers. And remember that 50% of our revenues in the UK are from customers who are on a cost plus basis. So they get it automatically.

In the US growth on a constant currency basis has been pretty much in line with US market growth and it includes a positive contribution from SecureNet. Spreads here have been stable. And we have a positive FX translation impact of the dollar/sterling which means that overall the headline reported growth has been up 15%.

Okay, let me turn to the costs now. So headline growth is up 16% from £390 to £354m. but FX is £8m of that and acquisitions £13m of that. So underlying costs are up 11% which is pretty similar to our revenue growth and consistent with previous years. As I have said before, this really reflects planned investments to support revenue particularly in customer-facing activities and technology.

Global eCom has the biggest percentage growth up 23% and the biggest absolute amount. And this really reflects our investment decisions to expand organisational capabilities supporting revenue growth expanding our geographic footprint, and really reflects the annualisation of headcount growth in 2014. This growth has been largely in people, we have also increased marketing and demand-generation spend. And also in 2015 there is a single £2m bad debt write-off for a single customer.

Now in the UK, you have seen that revenue growth has been impressive, but we are able to maintain strong cost control in this division and the investments that we made particularly to bring the businesses together in 2014, are beginning to deliver operating leverage and so costs are only up 3%. In the US operating cost growth reflects the significant investment in sales staff, an office move, IT development including security enhancements and increasing costs of recruiting and activating sales partners. All of this reflects the pivot in our strategy to move towards integrated point of sale terminals, selling through value added resellers and integrating the Secure.Net acquisition.

And in the US I would draw a parallel to where the UK was a couple of years ago, in that time we were investing heavily integrating four businesses, transforming the businesses, focusing on brilliant basics. And you see today, the operating leverage is really beginning to pay off in the UK. And the US is about a couple of years behind that.

Small growth in Corporate costs, that reflects the increasing investment in people but it also reflects the increase costs as we become a public company. And we would say there will be about a £5m incremental spent as a result of being a public company in 2016 costs base in Corporate.

Acquisitions of £12.7m with SecureNet at £10.3m and CobreBem £2.4m and the FX is all down to the US translation and offsets the net revenue.

So let me turn to the items below EBITDA. So first of all depreciation and amortisation. That may seem unusual. That is down year over year, but that reflects the coming to end of depreciation on assets that we acquired from RBS, software, computer equipment and terminals, in UK business, they came out of RBS, their depreciation ended at the end of 2014 so they are out of 2015 numbers. So that is down. But for 2016, you should expect a substantial increase in depreciation and amortisation as we start to depreciate the new acquiring platform as it comes on stream.

Underlying finance costs, they are down year over year, but that reflects only the post IPO structure from November. So really it is a pre-IPO capital structure with six times leverage. So you should expect this to be lower in 2016. Interest costs will be about 3.5% on the £1.bn of gross debt that we have today, plus there is about £10m of other costs such as capitalised finance cost amortisation swap costs and finance lease cost in this number in 2016.

The underlying tax was 26% that was actually slightly lower than expected and guided to and that reflects the lower profitability in the US where tax rates are higher. You should expect an increase maybe of a percentage point here in 2017 on the tax charge reflecting the new capital structure and lower IPO costs, and that will be in line with consensus. And then from 2017 onwards you should expect a decline 1% per year as the UK corporation tax rate reduces.

Turning to separately disclosed items. Let me remind you there are four key components of SDIs. Firstly, the costs of the new technology platform, costs that we can't capitalise all parallel running costs. Secondly, the cost of separation from RBS, those are coming down towards the end of that time. We have got reorganisation and restructuring costs, integration of acquisitions and finally the amortisation of the acquisition and intangibles and, also specifically in 2015, we have two new items. One the cost of the IPO and the refinancing associated with it, both the bank debt and the bond offering, as well as the gain on the realisation of the Visa Europe stake, and I will come to that in a moment. EBITDA

SDIs are principally platform and separation related costs and that is about two-thirds of those, about £68.7m and in 2016 we would expect these costs to be slightly lower. The IPO costs of £35m reflect the all employee share award done at the time of the IPO. Clearly that won't recur.

In depreciation and amortisation, this is mainly the amortisation of acquisition intangibles. These are declining down 15% in 2015. You should expect further decline in 2016.

Finance costs include the net gain on Visa stake, a non-recurring write off of capitalised finance costs at IPO and FX movements given we have an excess of liabilities over assets in foreign exchange. The impact on the Tax is really credit due to the SDIs offset by the tax on the Visa Europe gain, meaning it is pretty neutral in the year. And we would expect most of these SDIs will be eliminated by the end 2016. A few will survive. First of all the non-cash charges for the amortisation and that is going to be about £45m in 2017, the transitional share award that was made at the time of the IPO, that is about £7m per annum and that carried on for the next three years. And also there will be some residual migration activities around the new acquiring platform which will drift into 2017 but substantially eliminated.

Now turning to Visa Europe, now this is an unusual and complicated transaction, so you need to concentrate hard here. As you know, Visa Inc is buying Visa Europe from its members and we are a number of Visa Europe, we own approximately 5.9% of the shares. Our 5.9% share of gross proceeds is worth €1.2bn and it is a Euro denominated transaction, or £930m, with that 45% of that will be paid in cash a couple of months after completion and the remainder is paid in preferred shares or earn out over the next 4 years. Now remember that at a gross level, all of these cash flows come to Worldpay, but 90% of the value will be paid away to the holders of the conditional value rights, i.e. the pre-IPO shareholders. Therefore 10% of the net after tax proceeds are retained by Worldpay. Therefore that is a maximum of.£93m. Now up until December, the stake was held on the balance sheet at a nil value. But now we have increasing certainty of the transaction, so IFRS requires us to fair value that, and through some very complex calculations, we have valued that at £195.7m, a very precise number as required by IFRS and the CVR liability has been estimated at £140.9m. So what that means is that we have a pre tax revaluation gain of £54.8m and that goes through the income statement. I know some of the banks have treated that as a movement through reserves. In Worldpay this is through the income statement and it is treated as a separately disclosed item.

Now of course, this calculation is a probability weighted valuation. And therefore it can and it will change as the transaction closes and also as the exchange rate moves and over the coming years as the earnout is potentially realised or the preference shares are translated into cash.

So finishing up on cash flow, so a positive cash flow of £32m and that is despite the heavy £179m investment in capex which is up £36m over the previous year, as well as the £104m of separately disclosed items. You have seen a positive movement in
working capital and it is unusually a source of funds, that reflects the interchange changes that we have seen in the UK in 2015 and normally you would expect to see a modest working capital outflow as the business grows. And I think that will return to normal in 2016, but it is only of the order of £10-20m, not a huge number.

Cash tax was also unusually low, driven by the IPO and re-financing costs and I'd expect it normally to be about 2/3rds of the P&L charge in 2016. The non-cash items are FX translation and the finance accounts of £101m is lower than the P&L charge and that is as a result of expensing the capitalised finance costs in 2015. The increase that you are seeing in underlying finance costs from 2014 reflects both the FX movements as well as the increasing finance that we took on to finance the acquisition of SecureNet in December 2014. In 2016 you should expect cash finance costs to be around half the level of those in 2015, given the deleveraging we saw at the IPO in the new capital structure.

So in summary, I think we delivered strong underlying performance. It is exactly in line with the guidance we gave at the IPO. We improved profitability, we have seen cash generation despite making substantial investments in the business that will benefit us for the medium and long-term.

Our guidance remains unchanged, we continue to expect net revenue growth of a CAGR of 9-11% over the medium term. As I have said, most SDIs in EBITDA will be eliminated from the end of 2016, although a few still recurring in 2017. And as we previously guided, we expect to deliver stronger operational leverage and cash generation from the second half of 2017.

And finally, as we approach the end of the investment phase, as the new platform comes live, we are expecting to commence dividend payments, starting with an interim dividend later this year, and an annual payout ratio expected of between 20% and 30% of reported after tax profit.

So with that, back to Philip.

Philip Jansen - Chief Executive Officer

Thanks Rick. Just a quick summary from me. So in 2015 we made significant progress and delivered a strong financial performance. We have made a good start to 2016, in line with expectations, and are looking forward to the rest of the year with great confidence. Worldpay is an innovative payments technology company, and we are investing to deliver strong, sustainable growth. We aim for world-class performance, reliability and security in seeking to solve payments complexity for our customers.

With a market leading global reach and product coverage, a modern scale technology platform, strong customer propositions and a talented and engaged workforce, I am confident that we will be able to realise our vision of being the world's most progressive, reliable payments partner, sharing insights and helping our customers prosper.

With that, that closes the formal Presentation. So what I would like to do now is open it up to a Q&A session. And I welcome Ron, who will join us for that part. Adam looks you want to go first?

Question and Answer Session

Question 1 : Adam Wood, Morgan Stanley

Great, thanks, it is Adam Wood from Morgan Stanley. Just to dig in on the UK a little bit. To hit the medium guidance at Group Level, you probably need the UK to be growing a bit above the transaction volumes in that business. You have been helped this year by Interchange. Could you help us understand a little bit in 2015 in the interchange benefit, and in 2016 the continuing interchange benefit?

And then as we look at the other products you are starting to sell into that base, you know you have quite a broad offering of new products going into that, how does that take up the slack of interchange rolling off and can you give us a couple of metrics there to help us gain confidence as that continues?

And maybe just quickly on the US. When you look at the invest versus sell decision on the US, can you give us a couple of metrics as to what you are looking at to make that decision? And a couple of areas where there is incremental investments going in in 2016? Thank you.

Answer: Philip Jansen

No problem. I will go first on the UK. Look, I think everybody understands that there has been significant change in interchange regime over the last few years, 2015 and 2016, and there are big opportunities in that from a mathematical point of view. But at the heart of your question is what are we doing over the long-term to make sure that we can maintain sustainable profit growth in the UK. So what we have done, is we have passed a vast majority of the interchange benefits onto our customers, but we have also most importantly reformulated our whole proposition. So the UK offer is very, very different in 2016 versus what it was in 2014. And so we have take away a whole load of paying points, that is some of our customers experience. We have added a whole host of new products. So what you end up with is to answer your question, is we hope that by broadening the product set, selling more eCom, dashboard, data, all the things I referred to earlier, will allow us to add more customers at a higher rate than we have done previously. And we will get more revenue per customer. So what we haven't done is fall into the trap of just taking all the price in 2015 and 2016 and saying, what do we do in 2017. So I think we have taken a very balanced approach and very much the long-term approach. And you will see some of the investments that Rick has referred to. That is driving a great take-up in our UK business.

Do you want to comment on the specifics of the interchange? I know the guys are keen to understand how we calculate it. It is blended is the truth, right?

Further answer: Rick Medlock

Yes, I mean it is a very complex dynamic. And as Philip says, we have completely changed our pricing offering. So it is not straightforward to just extrapolate what the value benefit was in 2015 and 2016, but I will have a go.

First of all, as I have said, half our customers in the UK are on a cost plus, interchange plus, plus basis. So as a result, they get that as immediately as a pass through. So on the remaining part, it has been phased in various different times through the year. Changes happen in April, changes happened in July, changes happened in September and finally in December, and it is still going on. We estimate and as I say, this is not an exact science. We estimate the benefit is around £10-12 million in 2015 and a similar benefit in 2016. I think when you look at that, that is probably in terms of the spread improvement in the UK, about half of the spread comes from the interchange benefits. The other half of the spread improvement is really down to the penetration of SMEs and I want to make that point clear. SMEs clearly are much more profitable as a percentage net spread, compared to the big corporate customers. So that is the sort of number that we have seen. And when you take that away, it is clearly a benefit in 2015 and 2016. We have seen something like 7.5% underlying growth in the UK. And I think that is a really strong underlying proposition place. And remember that is in line with the guidance that we gave you of mid to high single digits, medium term growth in the UK. So I think the underlying business is being sustained.

Further answer:
Can I just add one other thought. I mean we analyse this to death, okay, genuinely and we tested everything you could imagine. And I think, just to be clear on what we are trying to achieve. We are trying to achieve, yes some pricing benefit of course. We want to make sure that our customers get better value. So they have all had significant reductions apart from the odd high value customers, who obviously suffers from a percent versus a pence per transaction rate. But generally our customers have got lower costs, they get a better service, a better proposition, pricing and margin does go up. But also most importantly, we grow our customer base and our customer satisfaction also goes up. So the value that they are getting is more than they had previously. So that is the equation that we tested and piloted and at the moment, by the way, we feel really good about it. But we will see how it goes and it is a competitive market out there. Is that alright on the UK?

On the US, just to answer your question directly, we are a long way off considering selling the US business. I mean we looked at it, we are doing the reverse actually, we are integrating it. One of the challenges and again hopefully my way is to transparent, what our challenge is in the US was, it was run too much of a separate division, partly because we considered selling a long time ago and we brought in a management team to do that. So now it is being fully integrated into the Group. It doesn't mean, should we change our mind in 2,3,4,5 years, can it be separated? Of course that is a possibility. But that is not our focus. The focus is to get the US to grow sustainably. And there is a lot of learning from the UK model that we can take to the US. There is also things in the US that need to come to the UK from a product point of view and the technology moves there. So the US, I know you are driving this, it was disappointing for us that we didn't hit the targets we set out, but actually with the benefit of hindsight as ever, we underestimate the costs of transforming the business away from just standalone terminals to integrated payments and when you look at some of the other people in the marketplace, they have found that challenging too. But the strategy is not in question for us.

Further answer:
I think the time as well. I mean I think we were probably over optimistic, or we tended to believe what the US guys were telling us about how quickly this change would manifest itself through the P&L and it has taken longer, no question.

Further answer:
And my the way, the old business, if you were just to take away SecureNet, the old business you know has performed pretty robustly. So that is encouraging and as that continues to carry on, we feel optimistic this year will be better than 2015.

<u>Question 2 : Mohammed Moawalla Goldman Sachs</u>

Can we talk a bit about Global eCom. This can accelerate in the second half, but comps are getting tougher, what are the strategies aside from growing within the customer base? Are you looking more aggressively at regional expansion in that business? You alluded to deeper penetration in certain markets. So if you could highlight on how do you sustain these high growth rates in eCom?

And related to that, on the margin, you know, will you continue to kind of invest over the medium term to chase growth, or is there a trade-off there?

Answer:
Let me give you a quick perspective and then maybe Ron you can talk about the expansion from the footprint etc. I mean in Global eCom you are right, we are growing very, very fast and it just gets harder and harder because it gets a bigger and bigger base. So again a lot of thought and care has gone into how we maintain that. And the answer again is diversify as much as you possibly can to spread the risk. Make sure all the segments are well managed individually and that products are growing in the same way. So all the eggs aren't in one basket. So that is the macro answer. I think when we look at KPIs, again as you can expect, we are very, very diligent on making sure we understand what is happening on a cross-sell point of view. What is happening on a new business pipeline. And as I said when I spoke earlier, that looks very encouraging. So you have got three prongs, the existing businesses are still growing very, very fast. The cross-sell activity is going well because we have got the benefit of the investments we made in new products and services. And the pipeline looks encouraging. But of course other things get more difficult. What we also need to make sure is that the new customers that come on board begin to grow at that rate as well. And so we have some analysis that shows that and obviously it does take a bit of time for the larger customers to get to full potential, which is actually helpful to us. So Turkish Airlines, we mentioned that at the time. It was, it took two years to get that done. We are finally getting the full ramp, there is more to come as well. It is really beginning to generate. So that is the model. Do you want to talk a bit about how we maintain the footprint and extend our licensing?

Further answer: Ron Kalifa
Yes so I think the licensing piece is I think it is important that we differentiate ourselves by the fact that we have got direct licenses in some of these markets. We have got direct licenses in Japan, we have got them in Europe, in Australia and we use others for other markets as well. So in Indian, Hong Kong, Singapore, US and Canada. That gives us a reach which allows those complex merchants who have these really complex needs to access one point as opposed to multiple points. So what we are starting to see is there is a lot of fragmentation in the market in terms of the number of players who are out there. But these merchants don't want to use multiple players, they want to try and use two players, three players whatever the number is and actually reduce that. So that is a growing trend we are starting to see and I think that will continue on the basis that we allow access and reach for those merchants. It is not just a reach in terms of geographic licenses, it is also a reach in terms of payment types. So the 326 payment types we have talked about before, it is that and adding to those on a constant basis. So that is the heart of the strategy and is growing pretty well as you can see form the numbers.

Further question
On churn can you give us an update on where churn is, especially in the UK?

Further answer:
In the UK, it is sort of still in the high teens, I think it has stayed pretty stable in the second half. We have seen an improvement overall in 2015 over 2014, but not particularly much change first half to second half I would say.

Question 3 : Gerardus Vos Barclays
Thanks, it is Gerardus Vos from Barclays. Just a couple of questions. I just want to come back on the US business. Does Worldpay need a kind of US presence? And secondly, on the competitive environment, we have seen quite a few changes over the year. You have seen consolidation in the US, how does that change your thinking? Then a potential kind of linkup between VOCR and the scheme owner here in the UK, what does that mean for you? And officially quite a bit of consolidation in the eCom business. So that is the second one on the competition there. And then finally, a bit more of a broader question. If you look at the overall acquiring business, officially we have seen the kind of benefit and we are still seeing the benefit from interchange. In the US there has been the benefit from OBLO with Amex. We have seen the up sell opportunity from EMV into integrated payments. Has acquire seen the best period of a lifetime? Thanks.

Answer:
Okay, shall I do the US presence and Ron you do Vocal link schemes and consolidation and eCom and I will handle the US if you want and acquiring AMEX EMV integrated to that.

Do we need a US presence? As the US business that we have currently got out there, do we need it? No we definitely don't need it. Okay. We think it is a good market, it grows at 7-8% as you know. And we think that we can make a decent return there and we can get sustainable growth out of it. So we don't need it from that perspective. Where we will need it is over the medium term for our Global eCom customers. So do we need 100,000 SME customers in the US? Don't desperately, but we will need access to a proposition that allows our Global eCom customers to be serviced in the US.

So again as many of you will know, take Google or Netflix, and we do almost all their activity outside of the US. If we could do their US stuff in a convincing fashion, they would really, really like that. And so that is not on the short term horizon but we have got a plan for it. So it is nice to have a platform that would allow us to do that. So taking an instance of our new acquiring platform and putting that authorisation part and sticking it on top of the US linked platform, would be pretty compelling. Doing it without it would be a bit more complicated. So I think we see it as a good opportunity as it currently stands and potentially to use as a kind of gateway to help us do the eCom in the future. So that is my view on the US. We don't desperately need it, but it is a good business in a strong market and in the future it allows us the optionality to grow our eCom business. Do you want to do Vocal link?

Further answer: Ron Kalifa
So you will all have read lots of stories in the last week or ten days about Vocal link. It does not really have any direct correlation to our business. As you know, Vocal link is a hub, it is a hub that links your current account to my current account through a network. So it is basically a network play. From our point of view, we are there to supply services to the merchants, to the retailers. That play is to the consumer base or as an infrastructure play. So

there is no real direct implication for us. I think it will be interesting to see what happens there simply because it is being driven as you all know, as a consequence of the Regulatory changes that are coming as a consequence of PSD2 and many other things which is in simple terms, increasing access. Trying to open up the market and the PSR, the payment service regulator is pushing that agenda very firmly in terms of increasing innovation, increasing competition and growing access. So I think VOCA does not really have much of a concern from our point of view.

I think just a slightly broader point, there are very few players globally who play in the space that we play. We are there providing those connection points for those merchants who want to get into these exotic markets. If you think of it that way. And they want to start to grow their business through one pipe. That is where we tend to play and the consequence of the growth that we are seeing is about scale, it is about technology and it is essentially about distribution as well. So those are the things that I think give us a licence to operate in a place which is different to many of the others. Does that answer the question?

Further question:
The US competition?

Answer:
The US market, you know, as I say, it is the biggest market in the world, it is growing nicely. There are many, many players as you well know. Most of them are doing extremely well. So we watch very, very carefully to see what is happening. Will we do some more things in the US at some stage? Probably. But let's make this Secure.Net and Century acquisition, integrate them in, get a proposition that works, a nice neat positioning that can grow sustainably. And then will there be other things we do in the US? Possibly yes, but not in the very short term. You had an EMV, Amex, didn't quite get that?

Further question:
It is more a kind of point. You have seen a lot of tailwinds in 2015 and 2016 interchange OBLO with Amex and EMV up sell opportunity in the kind of US, so my question is more broader not just for Worldpay, but more in general for acquiring. It looks like the acquirers had a fantastic kind of two years up till 2016/17 and 2018 is going to look a lot tougher for the industry. So I was wondering what you think?

Answer:
It is an interesting perspective. Have there been some of those tailwinds? Of course there have and you are right. EMV is going to carry on in the US for a little while by the way. So I think you are going to see that the EMV migration, it is very early days and it is not taking off rapidly, there are lots of issues there for the whole industry. So people have to replace their terminals, that is going to go into 2017 and 2018 in my view. So that will continue as a buy in decision to be made by people. I think how we would answer it is, it is a bit to the interchange point that Adam was asking us about. The downside of taking all those upsides and not thinking through the future and planning for years 2, 3 and 4, is that you hit the exact problem you are referring to. So what we have been doing, and it is, in the UK the proposition is being strengthened significantly in the way we described so that we can motor through it and we can make our own upsides. The market will always be strong. It might not have an Op Blue for example that happens in the US, we know that from Amex. So in eCom

again what I described. Really, really making sure that we have got the best footprint, the broadest set of product capabilities will drive that growth. And the US, we have got more work to do and we have got to give the US the same effort that the UK and eCom has so that it can do that sustainable growth. So I don't think that the market is going to against us, I think for the foreseeable future, we feel really good about the market.

Question 4 : Robin Van Den Broek Mediobanca

Robin Van Den Broek Can you maybe talk a bit about the margin expectations in the Global eCom. You are referring to the clients are moving more towards single provider model. Is there any chance you can boost your margins on the back of that? I think your H2 margin was a little better than H1 margin as well.

Secondly on the UK, the transaction volumes were put under pressure by competition and supermarket segment. Is that more a reflection of the average basket being lower or is it also that your clients are losing market share to maybe more German entrants in the markets? I am just trying to get a feel on whether a) is it just price being 10% lower or so and more of a one off, and could we assume more normalised transaction volume growth from here? Or should we consider maybe continued losses of your clients market share?

And thirdly, you talked about churn for a moment. If you could put churn against the market churn, I guess your churn is still lower, I am just trying to get a sense about the number of costs you are implementing. Innovation you are implementing. It seems that you are building up quite a big productivity gap which at some point should translate into I would say increased churn for your competition which should benefit you. Where do you see in inflection point on the back of that? Thank you.

Answer:

Shall I do the last one first and you can do the other two on margins to give you a chance to think about it.

A really good point on churn. I think you know we have had a little uptick in churn as a result of big price changes that you know about in the first bit of 2015. We might see a little bit of that in 2016, I am talking UK now. But as Rick said, it stabilised very much so in the back half. Again I implied earlier, we are a big tester and analyser of different scenarios. So we know that the churn effect of some of these new products and services is very positive. And it depends how many they take and when they take and what type of customers they are. So you are right. We see an upside and that is the 'Brilliant Basis' programme. The 'Brilliant Basis' programme is, drive sales momentum at the top line, but also look after your customers that you currently have in a better way by not pleading with them to stay, but offering more things to them that make them want to stay. And that in an essence is our strategy and it links to the original point about the UK and what we are trying to do, so you know, is get the same effort into the US, albeit you will understand we are a little bit behind.

Do you want to do the margin question?

Further answer:

Yes I mean first of all just to say, when you look at the eCom business, the volumes transactions are always stronger in the second half than the first half, you have got Christmas, you have got the Chinese singles day, you have got Black Friday. You have got a lot of stuff that is focused on the second half and with a fixed operating technology cost base there, you are always going to get a better margin in the second half. So we saw about three percentage points improved margin second half versus first half. And we had similar impact in 2014 as well. And I think we would say that the cost investment that you saw going up in eCom of the 20 odd percent increase in cost, that is not the sustainable growth number in the medium term. We expect to be double digits, but sort of low double digits so somewhere between 10 and 12% medium term cost growth in eCom. And that is really about expansion of geographic footprint, in particular in Asia, Latin America as well as product investments. Can we continue to expand? Absolutely and our guidance is for continuing to grow in the mid to high teens where we have been growing. We expect that to continue. That is about going with our customer base further and further internationally.

It is also about winning customer share. We have done that and you have seen that as well, some of the names that we have won. And it is addressing new markets. So we are very strong in five verticals. We are further looking at additional verticals to go into. We have done very strongly with the UK Government and we do the UK Borders Agency. If you are in the UK and have paid your tax on debit card in January, you will have used Worldpay. I am not sure that is a good thing when our name is shown there when you are doing something as horrible as paying your tax. But nevertheless it is on Worldpay and I believe it worked very well. So you know we continue to expand and look at different vertical markets to move into as well. So we believe that is sustainable growth. And certainly the cost investment, the substantial cost investment will slow down, so we should get some margin improvement in the medium term.

Further:
Did you ask a question German competitor?

Further answer:
Yes UK grocery markets. I mean so we do in the UK we do Asda, we do part of Sainsbury's, we do Tesco, Boots, Co-op. So we do quite a lot of the high street and obviously there is a grocery price war. And you can see that, and yes it is the Lidl's and Aldi's driving that. And so as a result of that, our merchants that we serve are clearly under pressure and it is the size of basket that is going down. So where you would expect maybe 2-3% growth in terms of size and spend, it is actually negative 1% in the grocery sector year over year. So that is the sort of headwind you are into and that is a little bit why the larger customer size is slightly dampened.

<u>Question 5 : David Mulholland, UBS</u>
Hi, it's David Mulholland from UBS. A couple of questions if I could. Firstly you mentioned two or three times now potential to go into new markets and Global eCom. I guess maybe you are not at a point to tell us what those are, but if you could please do? And otherwise what the timing of that is and is that something you think you can do completely organically or there might be some need to invest in that inorganically as well?

And then secondly, you mentioned Pazien and the progress you have seen with spinning out some of your data analysis assets out of the business. Can you give us an update on the progress of that? Is it really helping to get customers to understand the kind of benefits of acceptance risks across the market and even having an indirect benefit on the business? Then I will come back with a couple of financials.

Answer:
Ron probably you can do, Ron sits on the Pazien Board and we have made a lot of progress on Pazien and I think it is very exciting. Why don't you do that first and then if you can do the new markets from Global eCom?

Answer: Ron Kalifa
So Pazien for those of you who aren't familiar with it is basically a business we have invested in. It was set up by a couple of very talented people from a business in the States called LIDL which is now part of Vantif. And what it basically does is it consolidates data from different acquirers and different payment providers around the world. And what it enables is that it uses a user ID that you as a retailer might give them in order to work out whether or not you have got the best transaction route and whether they have got the best transaction price and whether it is optimised. They have now got access to something like 21 different data sources. In other words 21 different Worldpay equivalents and that accounts for about 30% of the market, global market in terms of payment. So we are increasingly starting to see volume going through that. We haven't been pricing it in anger in any way to try and drive that activity. But I think what we have done is to ensure that we are starting to build scale and understanding. We are thinking through very clearly in terms of how do we price this or is it part of a service that we provide. So we are at that sort of inflection point at the moment.

On the markets in terms of markets to sort of expand into. I think we have got a very good coverage already I would say in relative terms to the market and the competition. As an example, we had an acquisition of CobreBrem 18 months to two years ago. That gives us access to some of that Brazil, Mexico and Argentina which basically gives us about 87% of Latin America in terms of volume. So we have got that piece covered. We have got some gaps in terms of South East Asia, but the reality is it is an exceptionally fragmented market and it is relatively immature in terms of volumes and card volumes. So we will keep looking. There isn't anything around, that is part of the problem, you know these are very, very small activities. If something interesting emerges it will be a small infill activity very similar to what we have done in the past. We have done six to eight acquisitions that have cost us about £353-370 million. So it will be in that sort of size and range. It is not going to be anything dramatic.

Further:
You had a financial one for Rick did you?

Further question

Yes, I guess just one. It was very helpful when you give the comment at the Presentation last year around the seasonality you would expect and flagged to us not to expect as much seasonality in EBITDA in 2015 as there was in 2014. I wonder if you could just give us a comment on how you see the weightings this year on EBITDA through the year?

Answer: Rick Medlock

Yeah I think it is probably a sort of similar sort of split to this year to be honest. It is probably a 45-55 split. We will give you an update to that at the half year, but sitting here that is probably where we would expect it to be.

<u>Question 6 : Charles Brennan, Credit Suisse</u>

It's Charlie Brennan here from Credit Suisse. Just a couple of questions from me if I can. The first is your comments around the management change in the US. Is Tony still with the Group or has he left? What are you expecting for us to bring to the US opportunity and who is now running the eCommerce division?

And secondly, can you just give us the granularity behind the £2 million bad debt write-off in eCommerce and maybe just remind us of the invoicing cycle that gives rise to a bad debt of that size? Thank you.

Answer:

Sure. The £2 million bad debt was one customer, I will let Rick do that in a minute. On Tony. Tony is no longer with the business. He left at the end of last year. And what does Floris bring to the US business? I mean he is perfect for it. Because you know he has run a Global eCom business which by definition is not just point of sale. So in the US business the strategy is transitioning away from standalone terminals to integrated payments omnichannel. So I think his experience is absolutely ideal. He has run a sales team in the US out of San Francisco for a Global eCom, so he has been there a couple of months, he has made a superb start, we are really encouraged by what we see. And I don't want to get hairs running, but there is a bit of a way to go in the US as I said earlier on. So that is good.

In terms of Shane, Shane has taken over from Floris. He has been there also five years as the Chief Commercial Officer working for Floris and this was always part of his development was to take over and make sure that we had a situation where people had runway into new jobs and would post the IPO we would not have any sort of destabilisation of management group. And that has turned out to be exactly as we expected. So it is not just about Floris and Shane, below Shane the eCom organisation is re-set in a way that will last us for multiple years. And again I have done that throughout the whole organisation. So we feel pretty good about that situation. Do you want to do the bad debt?

Further answer: Rick Medlock

Yeah. So the bad debt came from one online furniture retailer, and it is to do with in our liability basically is for chargebacks. And if there is a significant time delay between taking the payment and delivery of the service, which in custom bespoke design furniture is quite a considerable time. And this merchant that we were taking payments for went bankrupt, and chargebacks were very significant in the period and we are liable for those. So that was a one-off in terms of unusual and we have very strong procedures around things like furniture, airlines and theatre concert tickets where there are gaps. And that was unfortunately one that came very fast upon us and it is about a £2 million hit.

Question 7 : Milan Radia, Jeffries

Milan Radia from Jeffries. One question on the new platform. As you turn that on, migrate customers, is there a step change to coming opex associated with essentially dismantling and turning off the old platforms? Presumably there are multiple platforms in place and what should that be ultimately?

Secondly, in terms of integrated payment hubs, thinking about Sabre and others are integrating various payment capabilities for airlines into their core platforms, how do you see that evolving in terms of market share opportunities going forward in the airline segment within Global eCom? Thank you.

Answer:

Okay, can I make a couple of comments on the platform and maybe you can do how the costs come off. The at the platform, we hit all the key milestones on delivering the platform we set out at the IPO. So that is really encouraging. And I think that having had the whole Bill complete at the end of the year, again another major achievement, we are now testing for the new platform. So new customers go live as I say in the summer. But we are parallel testing. So to give you some indication of how we are executing this, parallel testing starting about now with our final release, release 3 major release. That is going to run for eight months. So many companies would launch in one big way after parallel testing for three months or four months or five months. So we are going to go from March to October, so that is eight months of parallel testing and running two systems and making sure they are running exactly the same and in an identical fashion. And then we are going to migrate our customers having done that. So that is the plan. It does take longer then maybe than others would do. But I want to be very conservative, I want to take my time and I want to get it right. Because as you can see we are growing very nicely on the old platform. When we get the new platform, that is a bet for ten, twenty years not whether I am two or three months either side of a particular window. So we are still on plan versus what we expected to deliver and what we said at the IPO. But the costs that do come out when we are post platform, post expenditure, was a great business model when you come out. Do you want to?

Further answer:

Yes. So first of all to say in terms of whether you are expecting any one-off write-offs, remember this is RBS's platform not ours. So we pay a fee to RBS to use the platform. So the assets are on their books and not ours. So there won't be suddenly any revaluation write-offs as a result of assets not in use. So that is the first point I would make. And to remind you of the guidance that we gave at the IPO as to what is happening, is actually running the new platform is more expensive because it is a lot more complex, it has a lot more bits in it. And there is a lot more support contracts with people like Oracle and IBM etc. So gross the increase in costs for running the platform is £24m on a full year basis, offset by savings of £6 million for running costs. So it is a full year impact of £18 million step-up in costs. So it is not a decline it is step up in our technology costs. And that is phased in. £6 million in 2016 and a further £12 million in 2017. That is very clear, that number is unchanged, so we are pretty comfortable around that number.

Further
Ron do you want to answer the question on Sabre, specific one for airlines?

Further answer: Ron Kalifa
Yes so I think your question is almost at the heart of our distribution strategy. What we are doing is to ensure that we are not just going point to point in terms of sales people. What we are doing is integrating into hubs, Sabre is one, Amadeus is another, Zuaro from a billing point of view is another platform. So we are increasing the way that we actually get into the market by selling once to one of these players and then integrating it so that they can then on-sell onto whoever integrates into them. So it is a very successful strategy.

Further answer:
We have a whole team dedicated to selling to those kind of people for the reasons you are alluding to.

<u>Question 8 : Adithya Metuku Merrill Lynch</u>
Thank you. It is Ady from Merrill Lynch. Just a couple of quick questions. Firstly on the organic growth in the US, that looks to have accelerated in the second half versus the first half. You are investing more into the US so could you provide a bit more colour on what exactly these investments are going to be for and how you expect that to drive growth in 2016 and beyond?

And secondly, in the UK, you seem to have lost the market share in the second half. You mentioned earlier that was due to customer loss. Can you talk a bit about what drove this and what the key drivers were around this customer moving away from you? That would be really helpful, thank you.

Answer:
Sure, I mean, look I will do the US. The investments are in a number of areas, they are in infrastructure. So we have got an outdated infrastructure, so given the comments I made about integrating more into the business. We are putting two brand new data centres up into the US business and they are linked into our global effort. So all the security standards, all the things you would expect. So that is number one.

Number two, it is in product. So the biggest expense is about proposition and product. And it is taking the SecureNet gateway acquisition and having a pipeline of product development that delivers for the partners that we are targeting and that is where most of the investment goes. It also by definition is driven by people and developers etc. So that is where the effort is going. So it is in infrastructure, it is in apdev and it is in people which drives capability and there is a little element on increasing the visibility and control in the US business. So a bit like I get the sense in the UK we have really gripped that, I want the US gripped a bit more and that costs a bit of money to get that in place. So that is where the investment goes. And we think that will propel us forward and get growth in 2016 and beyond. And we will see how it goes.

Further answer:
So your question about the organic growth. I think you are alluding to the fact that in the second half, transaction values were only at 1% year over year. Now we need to be very careful about transaction values because remember that we do a huge amount of the high street. So Tesco and Sainsbury's and Asda and Next, huge values there. I have already talked about the grocery price war being effectively values there about 1% down year over year. We did lose one very large fast food chain, we lost the contract in 2014 and it sort of phased out by about March 2015, but had been on a downward trend, that was a loss to its own in-house banking provider. And that had a lot of impact on values of transactions, but in terms of net revenue, not a material impact. When you look at our profitability, and again I think there was a chart in the IPO, although significant amount of the transactions and transaction value comes from our large corporates, it is a smaller portion of our overall profit comes from those.

Further comment:
Let Ron explain why we lost that customer. It was a little while ago, we haven't lost one since then, but why don't you explain why we lost it?

Further answer: Ron
Yes. They wanted a very specific integration which we did not want to do on the old platform in simple terms. It was because it was cumbersome, it would have cost us more money and frankly it would have meant refocusing away from building on the new platform. So it was a commercial decision that we took, given the margins on that particular one. We said, look we will pass. Interestingly they are talking to us again, that particular merchant because they know that what we are building and at some point, it may come back.

Further answer:
But again, just reminding you that on the Worldpay UK it was 11% growth in the second half year over year. And if you take off the interchange benefit it was still about a 7.5% growth.

Question 09 : Mary M Adeyemi BAML
Thank you. Just a couple of questions, firstly on. This is Mary M Adeyemi from BAML. Firstly a question on capex. With the increase in capex we have seen over the last few years, can you give an indication of when you expect that to tail off and I guess what would you say is your normalised level of capex?

Secondly on FX, can you provide some colour on how you manage your general potentially adverse FX movements across your business?

And thirdly, can you confirm that the expected spend for the platform separation that is left in 2016 is ballpark around the same as what was indicated at the IPO?

Answer: Philip Jansen

I will do the easy one, number three. Yes it is. Rick you can do the first two.

Answer: Rick Medlock

Thank you Philip that is very kind of you. Okay, capex guidance. To remind you. We spent £179m, we are spending in the high teens percent, as a percentage of net revenue. We said that that level of spend would continue in 2016. So you should expect something of the same order as a percentage of net revenues. And that is as we complete the platform. And then from 2016, sorry 2017, our guidance is that capex will fall to between 9-10% of net revenues. So roughly £120m 2017 of that order. So a substantial drop. Now what that is just again to contextualise this, the industry typically spends 5-6% so we are spending more than the industry. So of the £120m roughly, half of that is what we would say is business as usual maintenance capex to keep the technology platform current. And if we want to run this business just for cash we could cut it to that level, that is fine. The other £60m though is capex investment for the new products and services that drive our Ambition 2020. And our Ambition 2020 is a whole range of new revenue growth opportunities that are over and above the base case and we are continuing to work those hard. Lots of new product initiatives both in the UK, US and eCom, and further enhancements to the platform and capability to deliver that. So we should expect that 9-10% to remain.

In terms of FX, there is two aspects to FX. You have seen the FX revenues that come primarily in the eCom channel, that is about settling for a merchant in a different currency than the original transaction. And we effectively act as the FX house for the merchant. And surprising maybe to you that this is to some of the largest eCom customers who want that risk if you like and that headache passed on to us. So for example AirBNB we will pay out to the owner of the property in the currency they want and we will collect the payment in a different currency and we will do all of that FX movements in and out for AirBNB. So we typically make a couple of percentage point spread on that and it is a very attractive business and it all depends on our ability to have customers who are going into these global markets and that has been growing at 20%. Now that is getting to be a bigger and bigger amount. We don't expect that to continue to grow at 20%, nevertheless it is very good and we manage that on a day to day basis. We have a broad range of currencies there and so we do have offsetting hedges and we look at that very tightly, but we are providing that as a service to customers.

The other part of our FX is really to do with the fact that we have the US business, 20% of the business transacts in US dollars. So our hedging strategy there is to take our debt package of £1.4bn, we have a chunk of that in US dollars and that is pushed down into the US to offset that. We have another chunk in Euros because we have a lot of revenue coming in in the eCom business in Euros and again that offsets that. So we have to some extent natural hedging, but we are not completely hedged as you can imagine. And obviously there is a difference between the hedging that EBITDA line and the net income line. So there is a bit of a mismatch between the two because one is on finance costs and one is in EBITDA.

<u>Question 10 : Vivek Raja, Mediobanca</u>

Thanks, it is Vivek Raja from Mediobanca. I just wanted to push a little bit further on this UK grocery war issue. A simple question. Of the total transactions that you do in the UK, what proportion of them relate to high street groceries? So that is the first one. I think it is important, because if the price war continues, discount retailers continue to gain market share, then presumably this headwind goes on.

The second question, sorry to ask you a question on Brexit, but is there a business continuity risk if the UK, God forbid, votes out of Europe?

And the last question is on the Visa valuation, what is the exchange rate that you have used?

Answer:
That is a very good question on the last one. I don't completely know off the top of my head. It would have been the current rate at the time we were doing the valuation calculation as of 31 December. Charles can you remember? I guess around 133. It has got to be around that number.

Philip Jansen
Ron do you want to give a perspective on Brexit and what we are doing about that and how we are planning for it?

Answer: Ron Kalifa
Sure. I think we have done a lot of work on this, we have had a lot of discussions in the Management Team and also with the Board around it. As you know our business is geographically diverse. We have got two domestic businesses, UK and US and we have got the Global eCommerce business for those multinationals who have those complex needs. And they are playing across different regulatory regimes as well. So having looked at various scenarios in terms of stay or exit, we have come to the conclusion that it is broadly neutral for our business because of the diverse customer base. And we have looked at various issues, I think the key thing there is not about what actually happens to the business in that sense, it is more about how do we react under both scenarios in terms of, what do we do in terms of economic regulation, conduct regulation. What do we do in terms of access to markets etc, in the event that there is an exit. And we have got some thinking and some plans that we have started to build in terms of that if that scenario does happen. So I think we are pretty neutral in terms of the implications for the business because of the way the business customer base is set up.

Further question:
I was asking specifically was your ability to serve customers in Europe is that unaffected?

Answer: Ron Kalifa
Yes I think it will be unaffected, principally because of the fact that the Regulator, if I can call it that for our industry, is typically MasterCard, Visa etc. That is a global set of schemes which would require no real change in terms of where there is. There are some challenges around PSD2 which is the regulation that is coming to the fore in about two years time, but I think it is as yet to be defined what that will mean in terms of Brexit. So we have taken a view that it is pretty neutral.

Further answer:
And we do have a significant presence in the Netherlands and we do process for a significant amount of our eCom customers through that anyway. We did that change back at the end of 2014 when the initial interchange regulations in Europe came into play.

Further answer: Philip Jansen
Just finally on the grocery point. I understand what you are saying, we have Tesco, Sainsbury's, Asda, Boots, Next, M&S. We see the whole of the high street by definition. They have had differing results as you know and Tesco's had a particularly tough time, again as you know. And if you look at December as an example, that was a tough month for some of those guys. And you can read the reports, a lot of commentary about that. So actually things have recovered for them in January and February. But even so, notwithstanding that, the impact of those changes in the 2015 year are not material to the UK business. That is not to say in three years time if they keep declining, it won't hit us to a certain degree, but I don't think it is massive.

Philip Jansen

Okay I think we need to close off there. Thank you very much for your time and attention, appreciate it, and see you all soon, Thank you.

End