CAB Payments Holdings plc

Strategic Update and H1 2024 Results – 04 September 2024

Gaurav Patel

Good morning, everyone, and welcome to our first half 2024 results and presentation. For many of you, this is your first time at our new offices. So happy to have you here. I'm joined here today by new CEO Neeraj Kapoor and CFO Richard Hallett. Neeraj will start off by giving a strategic update on the business as new CEO, and Richard will summarise the financial performance in the first half of the year.

After the presentation there will be an opportunity for Q&A. Firstly, from those in the audience today and then those dialling in remotely via the conference line. Could I just remind you, please just put your phones on silent? So because we are recording on the webcast. With that said, I over to Neeraj.

Neeraj Kapur

Morning everyone. Thanks Gaurav, for a lovely introduction there. This is my first results presentation as CEO of Cap Payments and Crown Agents Bank. I've met some of you before, but not all of you. And so welcome to all of you. And I look forward to seeing you, meeting you more as time goes on. But before we start, let me just say on a personal level that I am very excited to be here.

This is truly a unique business with a differentiated business model sitting within vast markets. I would add that this is a perfect opportunity for me personally. I have been given the responsibility and leadership of a UK regulated bank that primarily operates in challenging international markets with ambitious growth plans. CAP as has some unique strengths such as its prominence in the sub-Saharan market and the ability to unlock liquidity for its clients in hard to reach markets.

We are broadening the opportunity for business in the European market through our Dutch and be regulated subsidiary, and we will soon enter the US market cap has valuable operational leverage and is therefore able to scale up with limited additional investment. All this is great, but what truly attracted me to work here is our purpose moving money where and when it is needed into geographies that have some real challenges.

And for clients that are internationally renowned for providing significant aid, we are a purpose driven organisation and we always have been. This was a really important attribute of the

culture for me, and we will continue to make sure we fulfil and embed our purpose in everything that we do. Finally, but also very uniquely, our status as a beacon is only achieved by a handful of UK banks, which shows our serious commitment to sustainability both ourselves, both sustainably, to serve both ourselves and our clients.

All this lays the ground for a truly world class international business that is delivering good in the world. So turning to page three, I want to summarise our position at the end of the first half. This was a solid performance in comparison with the exceptional prior year performance, which saw a significant tailwind from our trading activities in Nigeria and Nigeria, tempered significantly in the second half of last year.

We saw central bank interventions in the Central African franc and West African franc. These were our top three currencies previously and the impacts have been felt well into the first half of this year, where we generated Â£56 million of gross income, a decline of 23% versus that prior year. Encouragingly, excluding these currencies, our core business has continued to grow double digits, showing that the CAP business model is robust and we are growing in other geographies without the noise of dislocations.

There is the result of this is that our corridor concentration has reduced from 49% a year ago to 32%, a significant improvement. But this is not by design and there is more to do in terms of reducing our concentration. We made good commercial progress in the half, having grown our network by 13% to just under 360 partners, giving us differentiated access to hard to reach markets.

Furthermore, we onboarded 35 new clients and our active client book now number 526. The key here is that we are building increasingly good relationships with central banks in new jurisdictions such as in the Caribbean. But there is a lot more to do. As mentioned in our update, in July, we saw the global cross-border payments market decline by 10% in the first half of this year.

Despite this, we managed to grow our volumes by 4%, which is very encouraging as we continue to gain market share. I've spent some time with the senior leadership team considering our overall strategy and have concluded that it is largely fit for purpose. I'm going to provide an update on our strategy by simplifying it into four pillars that will drive the business into the next phase of its growth, which of course builds on the strong foundations already in place with a laser focus on execution.

Part of the outcome of the strategic review process has been some strong and significant additions to my leadership team and throughout the organisation to enhance our execution capabilities. Let me provide you with my view of our corporate strategy, which builds on the business's strong foundations.

So as the new CEO, I'm keen to give you my initial impressions of the business. The box on the left shows how I perceive CAP now. Nothing has changed. It is still a leading B to B cross-border effects transactions provider with a differentiated network. It is a APRA regulated bank with a flexible balance sheet that can provide some real differentiation and leverage with and through our clients.

A point of detail that may be missed by many in the past. Moving over to our key differentiators again, these have not changed and these are well understood. So what do we need to do? The main factor, the main focus areas are we need to improve our capabilities and further professionalise the business. We need to focus on improving the depth and breadth of our network, both quantitative simply and qualitatively.

We can then expand the customer base, expand the geographies we operate in, and improve our share of wallet. None of this is revolutionary, but needs a highly focussed execution mindset throughout our business to deliver this. So moving on to page six, this shows the four strategic pillars that I mentioned earlier that we will be focusing on to drive our strategy.

Put simply, delivering these pillars will create a better performing and more sustainable business through delivering the strategy. This business will become more diversified in terms of network clients, corridors and geographies. It will also deliver a more sustainable growth business that is able to grow consistently year on year with reduced volatility and will not rely on market dislocations to drive revenue.

What's all the building blocks are in place? It will also deliver significant operational leverage with the ability to grow EBIDTA margins as we generate more revenue. So the four pillars focus on network, not just the size but also the quality and the ability for it to deliver what our clients need at competitive prices. Clients again, this is not just the number of clients.

It's about getting the most out of existing ones and adding new ones in the right geographies. So our revenues are more balanced platform them utilising a significant untapped resource at our disposal. The banking license to drive incremental effects and payments flow, generating both transactions income and net interest income to invest in innovate, allocating our non regulatory capital correctly to deliver the best value for shareholders, including continuing to grow our technology and balance sheet.

So what I'd like to take you through each of these four pillars. Pillar one focuses on our network, which is a key differentiator and strength of our business. The network is a combination of payment partners. Our liquidity providers on the ground, in the local markets we serve. We've done a great job in continuously growing this network by approximately 17% per year.

We now need to turn to the quality of our network, which is also a key factor and is essential to deliver competitive pricing for our clients and the volumes that they need. Today we have strong networks, but only in certain jurisdictions and concentrated in the sub-Saharan African region. The chart in the bottom right shows that our network by size has been consistently concentrated in Africa by approximately 50% since 2021, and the mix fairly steady.

This was commensurate with the bulk of our revenue, which was originated in that region. The issues last year, particularly with Zaf and SOF, showed that we need to improve the network, especially in markets where liquidity and pricing has been tightened due to central bank intervention. The quality of the network and relationships with central banks advances our understanding of the macroeconomic picture of those jurisdictions and improves our understanding of emerging trends so we can get ahead of them proactively rather than be reactive on payments.

A number of our existing partners do not have the capabilities to deal with large volumes of payments, which has resulted in increased payment costs and a shortfall in our functionality whilst also being costly in some areas. So what are the focus areas moving forward? The slide shows you where we are focusing to improve our network of providers as well as the actions we are already taking.

The key here is to broaden, diversify and localise the network. Our new head of network has already devised a regional strategy and is building teams in each of our target jurisdictions. The importance here is that we are building local in-country presence to build the relationships with local banks and most importantly, central banks. Previously, our network effort was being run centrally and exclusively from London.

By hiring local expertise, we are also figuring out the best way to expand our network in new jurisdictions such as LatAm and the MENA regions. We have developed a framework to assess the quality of all of our partners, including pricing capabilities, capacity and reach. And we will focus on spending time with those that meet most or all of our criteria in order to facilitate best execution for our clients.

We are also building relationships with local remittance players who can help us serve the large payment volumes that our local banking partners cannot do. As well as integrating with the last mile payments networks and on this subject, I am very proud to inform you all that we recently signed a global partnership with Visa to help us achieve this visa.

We're very keen to partner with us after gaining a strong appreciation of our business and the value of our business model. So the ultimate aim for the ultimate aims are as follows Grow the

network quality, especially in Africa, especially in those regions where we have suffered as a result of central bank interventions which allow us to foresee the next emerging macro theme.

We will grow the number of liquidity providers with the view of getting differentiated and priority access to liquidity at good pricing for our clients. Partner with local fintech and remittance companies that are able to provide the high volume payment solutions that we need. This has been addressed in large part through our visa partnership and importantly, grow our network in wider geographies so we can enhance the sales effort in those regions.

So speaking of sales, that brings me onto pillar two. So Pillar two focuses on our client relationships, both in terms of our existing client base and onboarding new ones. We have over 500 clients across our four main customer segments, which are IDA, emerging market financial institutions, non-bank financial institutions and major market banks. However, we are under monetising our existing client book.

The charts at the bottom show that 12% of our customers generate more than Â£500,000 per annum of revenue and that 66% of our customers generate less than Â£100,000, which we consider to be the tail. We do need to monetise those clients in the tail of our book or exit them entirely. Major market banks were highlighted as a core growth area for us.

They still are, but it will be no surprise to hear that they are subject to a fairly lengthy sales cycle and complex onboarding processes. As a result, we will continue to pursue large banking clients but will deemphasize their contribution to growth in the very short term. Finally, ourselves effort was concentrated from our London head office. We have very little on the ground presence in local jurisdictions.

The outputs of this, these focus areas is a new client model to enhance coverage. The first major priority is to improve sales leadership.

We have appointed a new global head of sales and a head of payments. These new leaders will take on the charge of optimising the sales organisation and integrating it deeper into our trading and network operations to facilitate closer cooperation. We also finalising a new Sales Incentivization scheme which closely aligned sales, performance and client value to individual monetary compensation and our sales goals, something that has not been done previously.

We also work towards a decentralised sales model which focuses on on on the ground presence and allows us to build closer client relationships that are more culturally aligned rather than over the phone. Thousands of miles away in London. The opening of the European and US offices will add to this effort. However, independent of those offices, we will also have salespeople on the ground in Africa and LatAm.

Our ambition is to double the sales force over the next three years. But the key is to grow them in the right areas with specific targets. While we expect an increase in cost to build this, we do not expect it to be significant. And it will also be aligned with higher revenue. We are also doing a thorough review of the client base.

This involves assessing clients that have signed with us but choose not to use us potentially because they see us as a backup provider. We will see if there are ways we can get them to transact with us. Otherwise, we will exit these relationships if we do not see any meaningful revenue in the near future. If there is any support we can offer these clients to support their affects and payments activity such as liquidity or trade finance within our risk parameters, then we will do so.

Which brings us onto pillar three, our platform, which is all about leveraging the banking license to accelerate effects and payments growth. So in particular, I want to look at our banking operation. I see this as a key differentiator versus our peers, one which has been historically under leveraged and I believe can drive significant effects and payments volumes through our platform.

The banking license provides us with a real advantage. It allows us to deploy our balance sheet where we are able to use our own capital and deposits together. It also gives us access to more sophisticated Treasury investment options such as the Bank of England and the Fed, which allows us to generate higher returns from our balances and hedge where we can.

The bank is also unique in that we generate significant revenue from non balance sheet activity, which creates quite high returns on equity. At the same time, we have been very conservative as to how we allocate our capital, which are usually in high quality liquid assets or HQ ELA. These are all placed with the Bank of England. Currently we have approximately 1.5 billion in customer deposits.

However, 80% of these deposits have been placed with central banks in the HQ wells, thereby earning a below market average net interest margin. Net net we need to do better things with our banking license, make better use of our lending facilities to our clients, as well as better allocation of assets to an improved returns for a similar risk profile.

And I want to talk about the focus areas, the actions we have taken and those we are about to take.

So in May we increased the limits of our liquidity as a service or loses its name from 40 million to 75 million and our trade finance lines from 100 million to 200 million. We have done this in a controlled manner to only our top customers where we can keep the risk level low. We have seen good take up of these facilities and it works well for us.

For us, as the credit risk is only incurred over a short duration of typically less than five days for liquidity as a service and less than six months for trade finance. The major point here is that these liquidity and trade finance lines are only to facilitate trade trading through us. So they drive effects and payments income as well in our experience, these facilities tend to turn over at least four times a year, meaning that Â£1 rule on our balance sheet drives full pounds of effects or payments volume in any given year.

This is a great use of our balance sheet to facilitate more volume and clearly stronger relationships by being able to do this, we are able to act as a one stop shop for those customers, allowing us to drive both net interest income and transactions income. Another thing we are doing with our balance sheet is improving our asset side allocation framework.

This is to move us into higher returning assets that are able to offer similar risk profiles. In June, we completed our first trade, acquiring a high yielding corporate bond from a listed bank, which has instantly increased the yield in our portfolio. We are professionalising our treasury management function and we have made the appropriate hires to get this started.

Going forward, we should see our net interest income continuing to be meaningful, a meaningful contributor to our revenue, but at the same time driving increased effects and transactions income. The important thing to stress is that we will continue to be a transactions led bank. Underpinning all our initiatives will have a disciplined approach to capital allocation. So capital allocation is extremely important in order to deliver sustainable growth in the future.

Today, I want to provide some important insights as to how our capital allocation works, especially since the understanding of us as a PNL driven banking institution places a different type of regulatory capital requirement on us compared to a typical bank that just lends money. A capital waterfall is simple. We need to prioritise our regulatory capital requirements, making sure we can firstly run the bank.

Next, we want to make sure we have sufficient capital to invest in new organic growth opportunities in front of us, such as extending liquidity as a service, trade, finance lines as well as our tech stack. We have an ambitious pipeline of projects to make sure that we can keep the business growing and competitive in our chosen markets. Finally, after that, we will consider whether there is sufficient capital to sustainably return capital to shareholders.

Richard will go into the makeup of our capital stack a bit later, but by way of simple illustration, we have 113 million of capital today, of which 89 million is allocated to satisfy a regulatory requirement. The calculation of this requirement is largely based on the average of our last three years revenue growth. In other words, as our revenue grows, our regulatory capital requirement grows in a straight line.

Currently, that leaves us with Â£25 million of capital, which is available for our use of this amount remaining. We allocate spending towards CapEx specifically for growth and extending our balance sheet. That results in a small amount remaining. We could distribute this to shareholders, but we would prefer to build this surplus for future opportunities given the relatively small quantities involved.

Returning capital to shareholders is something we want to do responsibly and consistently. We also want to make sure it's not at the cost of growth opportunities. So where are the opportunities for deploying capital to drive growth? So turning to page 14, I want to highlight some of the exciting technology projects we are working on. This goes towards building a bigger and better business with the ability to serve client needs in today's and tomorrow's markets.

This includes new products such as effects derivatives. This requires an overhaul to our systems in terms of Treasury and capital management, as well as dynamic hedging and regulatory reporting. We want to make sure we are fully ready from a technology, regulatory and operational perspective before we launch this at scale to our clients. We are also working on expanding our global payments, reach specifically utilising the network through visa in our payment flow, which will allow us to perform a higher volume of payments in more cost efficient manner, thereby lowering the cost per transaction and allowing us to work with lower ticket payments as well for our clients.

We are also looking to adopt a more efficient settlement system, notably payment versus payment or PVP, which mitigates settlement risk and reduces friction in the payment value chain for wholesale effects. Central banks in particular are strong proponents of this on the processing side, we are looking at enhancing our strengths through processing or SDP as well, which should improve our ability to interact with our clients network and payment rails without manual intervention.

On the protection side, we are prioritising AI driven processes to enhance our operations. We have been working on this for some time, which should improve speed and reliability, especially with transaction monitoring, AML and client screening as well as transaction processing. We are very much in a test and learn phase, but this promises some real benefits. And finally, on the platform side, we will continue to upgrade our payments and banking platforms to ensure they are scalable and can meet the increasingly complex needs of our clients as well as being fit for purpose as we become a more global organisation.

We expect to spend about Â£50 million this year on technology development. So now that I've explained my four strategic pillars, what will they deliver? Well, a more resilient business, something that can grow sustainably and predictably. I want to be clear that we are still very much a growth business, a business that is diversified, both in terms of clients, geographies and corridors, a more professionalised business, both in the front office and in operations.

We are also going to be tracking process through a number of strategic KPIs to show that our strategy is being executed as planned and driving the output KPIs beneficially. These KPIs focus on certain growth metrics such as network clients and geographies, but also the quality of that growth which will drive revenue growth. We will report against these periodically.

And finally, a core component to delivering this strategy is the quality and capability of the people executing it. I've already started strengthening the leadership team when it comes to that, with some key hires made both in the front office and operationally. Our front office hires have all had significant experience in emerging markets at major financial institutions as well as at our competitors.

The fact that I've been able to attract such high quality talent to our organisation shows that they believe in our business model and the opportunity for growth that it offers. Kirsty and Clare joined us last month. Costas joined just last year and has done a fantastic job building the European Office and setting up the local sales effort. Thomas has just joined yesterday actually from Stone Ex.

Operationally we welcomed our new CMO, Stuart Holstein, from our competitive fleet core. Stuart will further professionalise our operations and review our technology stack. Darren, our new head of network, has been with the organisation for quite a while. I'm very excited about the new role, which is key to our future success. We also welcome Mat TALTY, who I've worked with extensively in the past.

He has a proven track record of enhancing Treasury operations and balance sheet management. We also have a new CEO due to join us shortly. We are actively recruiting for a head of sales in the US and ahead of the Middle East and North Africa. So in conclusion, the past few months have been about honing the strategy into four pillars ensuring that we have the capital allocation to support our revised strategy and with the right people in place to drive execution for growth.

Thank you for listening and I'll pass you over to Richard to talk about the financial details.

Richard Hallett

Many thanks, Niraj, and good morning to everybody. It's great to see some familiar faces here today. So if we turn to page 18, I'd like to take you through some of the key highlights of our performance in the first half. Importantly, I think it's important to say, first off, the narrative has not changed since our trading update given at the end of July.

Some of the numbers I'm going to quote show some strong declines. However, this month, some good underlying performance and what we consider to be a reset year. GROSS income fell by 20 22%, some 16 million, which is explained by the elevated income we earned in the prior year period from narrow trading, as well as the continuing tailwinds from the Athens of currencies prior to the fourth quarter 23 central bank interventions.

If we adjust for these three corridors, underlying gross income went up by 11% and actually our effects and payments effects businesses went up by 14%. It's important to stress here that we continue to trade in these markets where we can. And so we still consider them to be core to our income. Adjusted EBIT fell by 53% to 18.7 million sterling on the face of it.

This is a material reduction, but this simply reflects the low revenue largely narrows off in the US and higher cost versus the versus last year, much of which is the effect of annual ization of our talent acquisitions in 2023. I will go into this in a little bit more detail on subsequent slides. Operating free cash flow fell by 75% to 9.4 million sterling.

Again, this is a combination of lower even down, but also higher CapEx than the prior year where we did actually underspend in the first half of 2023. So taking all of this together, our adjusted fell by 62%. Now, sifting through all the noise of comparability to last year, we do consider 2024 to be a reset year. There have been no meaningful dislocations that we've benefited from for the first time in many reporting periods, and as such, the business can now grow sustainably from this level, reinforced by the strategic update that Nero Niraj has just laid out.

Turning to page 19. So here we provide a bridge between gross income in H1 2023 and that reported in H1 2024. This helped better define the good underlying performance of of the business, excluding narrow often stuff. We can see that the combined gross income for now often design was Â£29 million in the prior year numbers and 8 million in the current year.

This equated to a fall of 73% in those currency corridors. However, the underlying 11% growth in gross income growth, excluding these three currencies, was a combination of good progress in emerging markets and G10 currencies. In emerging markets, we've managed to make further progression in our broad progression in our broader range of currencies, with emerging market volumes up 9%, excluding the three currencies for developed markets.

We have been building strong relationships with central banks, notably in the Caribbean, which are increasingly channelling the flow through US. With regards to NII, this hasn't fallen off as much as we had anticipated. Given the rate rate curve resilience you will recall from the March presentation, we anticipated a 10 to 15% reduction through 2024. That said, the balance sheet initiatives that Niraj has highlighted earlier today will help us mitigate the effects in a falling rate.

Environment of the growth includes same currency payments which grew by 8% and other banking services, which includes trade finance fees, which grew by more than 100%. Now like to turn to revenue progression by client segment and so on page 20. Firstly, the chart shows just how elevated 2023 revenue was. It's also worth noting, it's also worth looking at the longer term trajectory of the business, which has shown a 50% revenue growth from H1 2024 in H1 2024 versus H1 2022 or a 23% over the same period.

We have traditionally reported across our four main current client types, namely MF, EIS, NBI, AFIS and fintechs, Eidos, a major market banks. As you would expect, most client segments were down at a headline level versus last year, given the prior elevated income from all three significant West African corridors. But excluding the effects of these, you can see some good underlying growth in most segments.

In MF only segment, there was a conscious decision to drive stronger relationships with central banks who have provided provided us with some good volume this year. And on an underlying basis we improved revenues by 18%. Margins have been resilient in this segment for MBIA Faes. They showed good, good strength in sales channel with over 20% growth in volumes and 10% in revenues, excluding of course of the three currencies.

For Eidos. As we explained previously, they generated below trend volumes. We explained in our trading update that given the elections happening around the world and the political volatility, aid budgets are being cut. We do expect some uptick in the second half of the year, as we usually do with this segment. Given the need to meet annual budgets. Major market banks also generated strong volume, but there was a mix shift towards G10 currencies, which inherently have a lower take rate.

Again, there was good volume growth in the segment, excluding the three currencies. As mentioned earlier, major market banks have a long sales cycle. So despite having signed new clients in this segment, it has taken a while to get them transacting with us. It's worth now turning to our corridor performance on the next page. So moving it to page 21.

Volumes were robust, having increased 4% year on year, especially in a market that contracted both at a global level, some 10%, and in all, traditional sub-Saharan African market, some 5%. In our emerging markets segment volumes were down approximately 2%. And the headline take rates have contracted significantly from 61 basis points to 33 basis points. This really does show

the impact of the dislocated take rates we were generating from narrow trades in the prior year period.

However, on an underlying basis, stripping out the effects of nara's offerings of shows a more encouraging picture that is that take rates remain broadly stable at 33 basis points in our emerging corridors, and that volumes were actually went up by about 9% on the major market side. I'll take rates where marginally up a seven basis point, but volumes were up a healthy 8%.

Concentration and concentration risk is a big positive coming out of this. You will recall that when we sat here in March for our top five currencies for 2023 accounted for 45% of our gross income in H1 last year. That was in H1 last year. That was an even higher 49%. This has now come down to 32% for H1 2024, which is helpful with respect to concentration risk as mentioned earlier.

This is not by design, but given the fall away from narrow zones off, we would expect further improvement from here as we expand. What what did all of this mean for our EBIT outperformance? So on page 22, we can see the results of our decreased revenue and increased costs has resulted in a decrease in our adjusted EBIT margin from 56% a year earlier to 33% for the first half in 2024.

Costs and costs in the half increased by approximately 5.5 million sterling versus the prior year period. The largest component of this increase was was people cos we made some significant hires in 2023 which have now begun to annualise in 2024. These hires were largely in technology risk and of course our sales force, particularly in gearing up for our geographic expansion.

We've also made some new hires this year, as outlined by Neeraj as part of strengthening the leadership team. We also had an increase in technology costs, which accounts for new software to streamline business processes and increase operational resilience. Increased numbers of software licenses due to higher headcount, as well as inflationary increases embedded in our relevant software contracts. We also incurred higher property expenses resulting from our new London headquarters and two offices in Amsterdam and in the US that were not present this time last year.

We're expecting the revenue to cost jobs to widen in the next half through revenue growth, which will outpace the marginal increase in costs through the remainder of this year. We are generally expecting a higher margin in the second half of the year and I'll come onto this later. So if we turn to page 23, thank you. It is logical to see that our cash generation has also declined.

Not only not only did we have lower adjusted EBITDA than this time last year, but we also incurred higher CapEx cost. Our tangible intangible or core CapEx was Â£6.8 million this year

versus 2 million last year. And our fixed asset CapEx was 2.2 million versus 0.2 million last year, largely due to the fit out of the building we're in today.

Given the much lower CapEx spend last year, our cash conversion was much like our cash conversion for H1 2024 was much lower at 50%. Our capital intensity or core CapEx as a proportion of total gross income was 12% in this period versus 3% last year, which really contextualises the drop in cash conversion. As Neeraj mentioned in this section, we expect core CapEx to be around about 15 million sterling for this year.

As with prior presentations, I'd now like to say a few words around capital and our strong capital base. So turning to page 24, our capital position showed that we had 113 million of capital or tangible net assets in Neeraj, a section. He went through our banking structure and the fact that a significant proportion of this capital must be held back to cover our minimum capital requirements set out by our regulator.

The biggest change here is the trade finance and overdraft line, which was Â£22.9 million at the end of H1, but stood at just over 13 million at the end of 2023. This is principally due to the increase in credit limits that we've offered to certain customers and the take up of those facilities. Given the large amount of this growth, given the large amount of this growth was at the end of H1, there's not been enough time for profitability to come through to a quarterly increase.

The capital base. As a result, our available capital contracted slightly from 34 million at the end of the year to 20 24.9 million at the end of H1, with the remaining capital within able to execute our CapEx and strategic growth plans. And as a reminder, given our review generation profile, which was largely transaction orientated rather than balance sheet, our capital requirements are largely based on our revenue profile over a moving three year time horizon.

And finally, I'd like to say something about the outlook for the second half of the year. So turning to page 25, we mentioned our trading update that we're anticipating gross income for 20/24 to be marginally below that of last year. We expect this to be a combination of value performance combined with strategic initiatives. Let's firstly look at value performance.

In H1, we generated Â£56 million of gross income and that was without any tailwinds from Narra and still suffering from the headwinds from Zaf. And off as is well known, we tend to transact more in the second half of the year. It is therefore worth noting that in 2023 stripping out for the three currencies highlighted H2 revenues were higher than H1 by 22%.

And indeed, if we go back to 2022, H2 revenues were higher than H1 by 57%. This implies seasonal implies both seasonality and underlying business growth, half on half. This has happened consistently and we expect this to happen in H2 of this year. The seasonality element

of our business is hopefully well understood, but as a reminder, a number of remittance customers tend to be back end weighted to account for cultural holidays such as Christmas, Hanukkah, Diwali, Thanksgiving, etc..

Furthermore, for Eidos spend, Spend has a strong track record of picking up in the second half, as organisations tend to spend their budgets in a use it or lose it model. The second component of this growth will come from the strategic initiatives that we put in place towards the end of each one, but have not yet had a chance to make a financial impact in H1 24.

This includes the extension of increased trade, finance and liquidity facilities to certain customers where we've seen a strong take up and perhaps perhaps some small contribution from the new European office in the second half of this year. And finally, our newly structured salesforce sales initiatives are expected to make some impact in Q4. By way of current trading. We've seen a healthy start to H2, which gives us confidence in the outlook for 2020 for an increased revenue in the second half, together with a marginal increase in costs, we expect adjusted EBIT to expand in second half, bringing the blended full year margin into the high thirties approximately.

Thank you for listening and let me pass you back to Niraj for his closing remarks.

So thanks, Richard. So in summary, we are focusing on executing our strategy, strategic plan, outlining my four strategic pillars of network clients, platform and innovation investment. The fundamental business model is sound and intact with a huge target addressable market. My approach is to get the basics right and having the execution, discipline and management talent to get things done.

So we're going to strengthen the network, focus on our client base, taking advantage of being a bank and continue to invest and innovate. We have made high quality hires with significant capabilities and experience to drive this forward. I'm really excited by the next phase of the growth. I look forward to updating you on our progress. So thank you for listening and we can now go to Q&A.

Orson Rout - Barclays

Orson Rout from Barclays, just two questions from my perspective. The first is on CapEx and to free cash flow. Free cash flow is obviously a bit softer due to the higher CapEx in H1. So I was wondering if you could give a bit more colour on what this increase CapEx spend went into And then sort of nice tough guidance for H2, But in reality, should we expect CapEx to remain similar elevated levels or do you expect them to go back to what they were last year?

That's the first question. Second is just on piracy and sort of if you could provide a bit of an update on those corridors, I was a bit surprised in there in the network slide to see that you're actually looking to increase network capabilities in these corridors. Last I heard in NIRA, the margins are still razor thin. It would be interesting to get a bit of colour on what the rationale is to actually build out a network in a market which on the surface level doesn't look attractive to thin margins.

Thank you.

Neeraj Kapur

I'll deal with the last question first and and then Richard can deal with your other two questions on this afternoon's off, Nira. Ultimately, these are still big markets, right? So these these regions are you know, they are transacting with the world in very large volume. So the volumes are there. The way that the margins have worked, as we've stated, has been there's been a dislocation in the past and that has allowed for, if you like, abnormal margins to be in place the normalisation of those margins, which is what you would you also referring to in terms of them being a lot thinner, doesn't stop us from trading in that region, which we have.

You know, we have got the experience, knowledge and history to be able to deal in those markets very, very successfully. So what we want to do is we want we want to grow into all of the other markets I talked about. It isn't about saying that we don't want to become bigger and deeper in the markets we already, and that is where the profitability from those markets can be.

So when, as you say, margins are reducing, the only real compensation to that is increasing volume, right? So from position is not about walking away. It's about saying, okay, well, these countries are still trading very, very hard and and we need to be just part of more of it. Some of the other things that we're putting into place, like the ability to go into the network through visa, etc., etc., will help us to probably in those regions.

So hopefully that helps you understand. That is all of the strategy I talked about. None of it is about moving away from anything. It's about growing further and creating that diversity and then reducing concentration through that growth in more broad terms.

And just quickly on soft stuff, is the situation changed from a market dynamics perspective changes now?

It hasn't been anything particularly in change, but the point is that we are still working further to understand how we can get more liquidity providers, more relationships, and again, building stronger relationships with central banks so that we are seen to be the acceptable face to deal with in those territories.

So also now endeavour to tackle your CapEx questions. So I think we've consistently said that we will we plan for where appropriate, a capex spend of around about 8 to 10% of revenue in any given year. I think it's fair to say in 2023, you'll recall from the March update that we gave that we somewhat underspent. However, the exit run rate from 2023, so in November, December was at that run rate.

So we've continued at a very consistent pace. Now why has there been a year on year differential? Well, you know, we have been under a new CTO from about 18 months ago building a go, an enhanced roadmap, and that takes time to, you know, to craft and prioritise. And that's why we, you know, towards the end of last year we got to the, you know, to the runway run rate that we are now seeing.

As to the secondary question, you know, do you expect it to, you know, go back to previous year's levels. I think you'll probably get from my, my first remarks that that is unlikely. We are you know, we have a huge opportunity here to, you know, to gain market share. And, you know, that requires technical technology, you know, advancement.

And indeed, if I can draw attention to the visa mandate and partnership that we've just announced, you know, there are developments in that space that, you know, that will require CapEx spend as as one example.

Vivek Raja – Shore Capital

Thanks. Hi. Good morning, chaps. It's Vivek Raja from Sure. Capital. I haven't counted there, so forgive me, maybe two or three questions. I think the first one is what you learned last year in West Africa in terms of the importance of central bank relationships and what you've done then. So there's you've obviously talked about getting close to central banks, being in more constant dialogue with them.

I just wondered if you could unpack that, what that actually means and how you go about doing that. The next question is about the visa relationship, so I appreciate that there are things you need to do in terms of investment, but I'm wondering how how long is it before that could start generating revenue and what sort of revenue will that be?

And then just just to clarify, 1 million of below the line costs in H1, including some restructuring, I know what the number was. Are you expecting any more this year? Thanks.

Neeraj Kapur

I'll let Richard talk about the your cost point. But on the West Africa central banks piece, one of the things that I am about to embark on is actually going to see these central bank governors face to face. I think it's very important that we have those relationships and that they have access to people like myself and other senior people on my team.

However, we will also be, as we've said, putting people on the ground through our network so that we have a more constant dialogue with those those central banks that we obviously operate through, through their currencies and want to grow and want to grow our business through. So that is about to happen. So, you know, isn't that I have been over there already.

I've not done that so far, but I will be doing that. And We do have advisors in those regions that we are using to get access to the right people and it is important that we access the highest levels in their central banks to talk about two things. One is obviously to explain what we are doing and what our importance is in terms of how we how we can help them, but also to understand what they need from their macro level.

And so we can understand where we can then fit in with our proposition in terms of forex and payments. So I think can be very helpful and useful for us to have those relationships. And as I say, that's what we will build out on the visa and say we've announced that just now. So that's just happened. It will take some time to create the technology, but not to too long.

We expect to see revenues probably sometime next year, probably in the second half. Most likely being more significant and it will then continue through through how we can then leverage that further with our customers. Just to be very clear on that as well, this is not a consumer proposition. So what this is, is a business to business proposition that allows our client to then deliver to their clients.

So it's a business to business to consumer operation, which we're kind of getting involved in here. So I don't want there to be any confusion about what this asset ACH access allows us to from a business perspective. So if that helps. Do you want to talk about the exceptional costs?

Richard Hallett

So the question was around non-recurring costs. Yes. Yes. And so we believe it's useful to really hone in on recurrent costs. We've you know, we've had a small overhang in the first the first half of this year with some, you know, some residual costs associated with the IPO of last year. I, as a rule, don't like using that line, but, you know, it is useful for clarity.

I don't expect meaningful costs there in the second half of this year.

Vivek Raja – Shore Capital

Can I wanted to follow up on the central bank on to thank you for the answer of the part of the agenda I'm understanding today is decentralisation, more boots on the ground compared to a business previously sort of run out of London. I just wanted to understand in terms of the central bank piece, what sort of connectivity was there previously from the business into the central banks.

Was it again to have done fairly, fairly remotely, or were there regular face to face meetings with central banks? And clearly that is something that you are prioritising now to to improve going forward.

Neeraj Kapur

I mean, I wasn't there and so I can't give you that answer.

Richard Hallett

No, I'm happy to do that. I mean, we've talked to I mean, there are many different levels of relationship that one can have at the central bank. I think with you know, I think what we came to realise is that a lot.

Of those relationships centred around the Treasury function within the central banks. And I think what we have learnt and have started to execute upon is to ensure that we have the relationship at the very highest level, i.e. that you know, within, within the central bank. So I think there's a subtle shift. Yet we still maintain those Treasury relationships and are very, very influential.

Portia Patel - Canaccord

Thank you. Portia from Canaccord. I just wanted to ask about the take rates. So just noticing excluding the three African corridors, it was very resilient year on year. Yeah. And just wanted to ask, is, can you just remind us if that's something that you feel you have any degree of control over through pricing or otherwise, and also how you'd encourage us to think about the take rate going forward as you expand into different and new territories?

Richard Hallett

There's quite a lot in that for sure. But you'll recall, and I think it's important to reiterate that when we did a lot of market research, primary market research going, you know, going into the IPO process and I believe that still holds true. And that is that generally speaking, in emerging markets, you can you can expect take rates to reduce over time by a small amount go and typically we put a 1% number on that.

However, with a firm that is expanding into new emerging markets, you know, there is an opportunity, you know, to be, you know, a, you know, for higher take rates. And therefore over time, you report in some of our other conversations, we broadly expect it to remain comparably

flat. So a little bit of reduction overall. But because we're going into new frontier territories, you know, some some pricing advantage there.

It is important to reiterate, though, that when it comes to planning and forecasting and obviously it's something that we have focussed a lot on, you know, we try to take a conservative approach to that, you know, and we build it from a top down perspective and a bottoms up working with our traders and market intelligence. We take a conservative view wherever we possibly can.

And so over the cycle we sort of plan for it to come down, you know, marginally. Yeah, yeah, over time. But in reality, we do see more resilience than we planned for.

Mark Brown – Shore Capital

Mark Brown Shore Capital. More general question on costs. I think you said that some of the strategic initiatives wouldn't have a material impact on cost. Is that because it's not material or because you think you can find offsetting savings elsewhere?

Neeraj Kapur

Thank you. Mark I think the thing with the strategy is the strategy was already in place and is part of our current costing. Generally, what I'm trying to do is to do two things. One is to clarify it so that we can all understand it at every level, whether it sets, you know, the investor level all the way through down to the people that are working, colleagues of ours all the way through through that the second parties that we buy by creating that and by creating the plans that will then sit below those that we actually create a more efficient way of delivering that.

So whilst there are costs that will go in and out of that, that ultimately the organisation was trying to deliver those things in any case and had costed quite a lot of our team. I'm just trying to make it more effective and more efficient in the way that what we get out of it, through doing it the way that we are.

And that's why my point, the moment is that notwithstanding what I don't know, in other words, if we have other opportunities that we should invest in, that we need to put more money into that, have a good, you know, earnings accretion, notwithstanding those the costs of doing what I'm doing is, I say immaterial and you know, quite rightly, I'm not I'm not saying the impact of what I'm doing is immaterial.

I'm saying the material, the materiality of the impact is what we're after. But it isn't about putting a lot more cost in terms.

Mark Brown – Shore Capital

I noticed that the non profit organisation Crown Agencies has gone into liquidation and that it's got nothing to do with you now. But is there any sort of knock on reputational relationship and sort of impact of that.

Neeraj Kapur

Well, as you can imagine, we were looking at that very closely when it happened and our PR advisers were also looking at all the various channels and we were also looking at any kind of investor reaction to that. And actually we saw absolutely nothing at all. So clearly, the market is very aware of the difference between us and them.

And, you know, we are quite a long way from when that happens now. And I therefore don't really see how that can be an effect going forwards, really. I mean, I can't see I'm not saying there won't be anything. We are always ready to react and we have, you know, all our advisers ready if we to do something to make that clarification that it's got nothing to do with us.

And maybe worth just to emphasise that we have no financial exposure to them either. I think it's important to them.

That they've got nothing to do with us in any way.

Mark Brown – Shore Capital

Now I suppose I was thinking about especially I was thinking about not so much market impact, but in, in, in the local markets where maybe if they're supplying elites and people associate crown agents, you know, as a supplier, they can all of sudden that dries up and.

Neeraj Kapur

So as I say, you know, we have been waiting to see if anybody would come out of our, you know customer client segment to say, is this something to do with you know, nobody has I'm not sure what their activities were towards the end. To be fair.

A lot of their activity was very much logistics and organising aid on the ground rather than necessarily financial. And so I think there's a there was a in market, there would have been a strong recognition of what they do versus what we do and they would have known that even when we were part of that crew prior to the Helios group acquiring the asset.