<u>CAB Payments, FY23 Results Presentation: 26 Mar 2024</u>

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Michael Goldfarb: Head of Investor Relations

<u>Michael Goldfarb:</u>

Good morning.

Welcome, everybody to CAB Payments 2023 Full year Results Presentation.
For those we haven't met before. I'm Michael Goldfarb, Head of Investor Relations here at CAB Payments. And I'm joined by our Chief Executive Officer, Bhairav Trivedi and our Chief Financial officer, Richard Hallett. At the conclusion of their presentation, they'll also be joined by David Mountain, our Chief Product Officer for Q&A.

With that, without further ado, I will turn it over to Bhairav.

<u>Bhairav Trivedi:</u>

Thank you.
So good morning and welcome, everyone. I think Michael stole a couple of my lines. I was going to say I'm Bhairav Trivedi, this is Richard Hallett, David Mountain.

So anyway, we'll get straight into it. So welcome to our first, financial results annual presentation. 2023 has been an interesting year for us, one in which we saw exceptional growth in the early part of the year and that normalised towards the later part of the year, due to dynamics within the market.

So, with that frame in mind, let's move on to the first slide.

<u>Slide 3:</u>

I thought it would be good to summarise exactly why we exist, what's our secret sauce, what do we provide to the market and why we are significant in this market. So let me focus on why we exist as an organisation. What attracts some of the largest blue-chip customers in the world to CAB?

And so, I think the key themes here on the slide are, we move money for our customers to some very difficult to reach markets. We are technology enabled to allow for rapid execution and our product features are what differentiates us from the rest of the people in the market.

Simply put, we help clients move money across geographic boundaries and between currencies. Our key destinations are often complex and hard to reach geographies, like sub-Saharan Africa and other places. Our clients are sophisticated organisations. We have the international development organisations and major governments, much like the US State Department and UN entities. We have non-banking financial institutions which tend to be large remittance companies as well as non-bank financial institutions across different parts of the industry.

We've got the major market banks that include several global top 10-20 banks in the world. And then finally, we've got emerging market financial institutions, which tend to be financial institutions in the emerging markets, combined with a number of different central banks. Today, we bank close to almost 30 central banks globally. And a highly developed network and technology platform allows us to move money transparently, quickly, efficiently and at a very low cost, which is why our customers like us and we do all of that in a single hop, unlike the traditional swift payment system, which actually goes in multiple hops and so effectively we are making the system more efficient, lower cost, with a single entity. And finally, a large proportion of our flows provide aid or promote financial inclusion in the economies in which we operate. So that is a key driver for us. And we'll talk a little bit about our social agenda as well as our focus on ESG as an organisation. So on the next slide, let's take a look at a snapshot of our 2023 performance.

Slide 4:

Key messages here are we showed good growth in 2023, across all metrics in our organisation. We grew our customer base to enable better growth going forward. So a lot of the customers we brought on in 2023 will start to generate revenue significantly in 2024. And then we continue to drive a diversification agenda to reduce inherent concentration in the business. And I'll talk in more detail about exactly what we are doing on that front.

So we represent anywhere between 1% and 2% of the global market focussed on our target addressable market. And the market is in the trillions of dollars. We'll talk specifically about details on that side. The client base is growing and becoming increasingly diverse. In this year we added 83 new clients and had just over 500 clients actively generating revenue in the year for us.

Our network in our chosen markets we believe is second to none, and we continue to develop and expand it. The number of our partners grew by 15% to 331. And then in the year we traded about 110 currencies, and about 80% of our trades are fully automated. This is an area we continue to focus in on and try to move larger and larger transactions across on to the fully automated platform, because we do believe that this provides speed of execution as well as the ability to do these transactions at a very low cost for our customers.

And finally, revenue was up by about 25% in 2023, and we remain highly profitable, with natural operating leverage in the core transactional business, for us. And of course, we are exceptionally proud of our track record in moving money where it's most needed. In 2023, we moved roughly about $3.1 billion of our flows for aid organisations across the world. With that, I'm going to hand over to Richard, who will now dive much more deeply into all of the financial numbers.

And then I'll come back and do a quick summary in terms of some of the other things that we can talk about.

Richard Hallett, Chief Financial Officer

It's a great opportunity for people to come to the front.
Thank you very much Bhairav. And a warm welcome to everyone. For those that don't know me, my name is Richard Hallett and I'm the CFO for the Group. I see some familiar faces, but there are those that may be new to our story as well. So welcome to you.

We did provide an indication of financial performance with our update on the 16th of January. And so, I'm pleased to be able to confirm what we said then, but also add a lot more disclosure today. I will then hand back to Bhairav, who will take you through some additional disclosure, which we hope will add to the understanding of our business and our business model.

So, we're turning to page Slide six here.

Slide 6:

And so let's start with a snapshot of our performance. I'm pleased to announce a record set of results, which continues a track record of annual growth and high levels of cash generation. In line with the update we gave on the 16th of January, gross income grew by 25% year on year to £137.1 million sterling.

However, almost under any circumstances, this would be considered to be strong growth. But I do appreciate this was not the growth that we had anticipated in the middle of last year.

All of this has resulted in an adjusted EBITDA of £64.6 million sterling for the full year, and up 17% on the previous year and representing an adjusted EBITDA margin of 47%, down 3% on full year 2022.

Our capital light business model has produced high levels of cash generation, with an operating free cash flow up 14% year on year and with an 88% cash conversion rate, in line with our long-term assumptions. So if we could move to page seven now. Thank you.

Slide 7:

So on this slide, I wanted to show you a more statutory view of the numbers.

I don't intend to spend long on this slide, as I'll address all of the key elements over the next few slides. So I would perhaps view this as a bit of a takeaway slide. It is, however, worth mentioning that this view contains all of the impact of the anticipated Naira drop-off in 2023, within the FX and cross-currency payments lines.

And so it does have an effect in somewhat dominating the headline growth metrics. But there are some important underlying growth KPIs, if you strip out the Naira, which I will do in the following slides. What you can see here is that even including Naira, our core FX and Cross-currency Payments revenue was ahead year on year by 8% and 4% respectively.

So now let me try and provide some more context on the following slide. So if we could turn to page eight. Thank you, Kieran.

Slide 8:

So this slide is in a format that was welcomed at the H1 results. Here, I unpack the revenue to better draw out the drivers and the underlying performance, particularly in the core FX and payments performance.

There are really three key elements that I'd like to highlight today. Firstly, a focus on the underlying transactional business. Secondly, an update on the Nigerian Naira. And thirdly, some comments around net interest income. So firstly, although CAB is a PRA regulated UK bank, it is not a classic banking model. We remain at our heart a transactional business.

As you can see at the bottom of the stack on the right hand side, our cross currency payments and FX segment, excluding Naira, increased by 28% year on year. Obviously, I will come to Naira separately. The nature of doing business in emerging markets is that we see demand and margins rise and fall in each market in line with geopolitical and local politics and regulatory changes. Where volumes are normally relatively predictable over any longer period, individual quarters are hard to forecast precisely.

And so we do see some short-term volatility. We talked in November about the impact on Q4 23 from specific central bank interventions in two of our key geographic corridors, namely West African franc, or XOF, and Central African franc, XAF. And you can see the impact of this when comparing H2 23 to H2 22, which saw growth of just 10%.

While absolute performance, particularly in the XOF region, remains good, we simply did not see the uplift that we were expecting in XAF and XOF in Q4, particularly as Q4 generally is our strongest quarter in any given financial year. We do have a compelling and broad francophone African franchise, and so looking ahead, although we make relatively conservative assumptions in our planning for 2024, we are confident that XAF and XOF will continue to be a significant corridor for us.

Secondly, looking at Naira, you'll recall at the time of the IPO, we anticipated a significant drop off in revenue here. Nigeria has historically been one of our strongest corridors and we had benefited from a prolonged market dislocation, particularly in late 2021 into 2022. However, in mid-23, our Naira revenues fell as the newly appointed central bank leadership team began to tackle local currency reform.

This has resulted in a £10 million year on year reduction in revenue or a 35% reduction. In H2 23, this was more pronounced still, when our Naira business flattened and produced just £3 million of revenue - you can see on the bar chart there. Although Naira remains an important market for us, given the levels of current activity as well as our active management of concentration levels and diversification through our portfolio, we expect the exit run rate from 2023 to continue into 2024.

And then thirdly, and lastly, beyond the transactional business, we saw significant increase in NII, our net interest income. This grew to £32 million in 2023, up by more than three times. And NII is an important income stream for us. And it's a key adjacency to our payments proposition. In particular, our ability to offer a deposit option is important to our EMFI clients Our NII has benefited from the increasing interest rate environment, both in the US and UK, and we're particularly well suited to capturing that revenue, given the loyalty of our deposit base.

While we typically forecast our balance sheet and deposit base to grow in low single digit percentage points each year, the various global yield curves are the principal drivers of our NII trajectory. Based on market assumptions, although we continue to expect strong contribution from NII in 2024, for a lower absolute result in NII is likely to be a drag on the overall revenue growth.

Could we go to page nine, please? Thank you.

<u>Slide 9:</u>

So some comments on cost. We have always had an incredibly strong culture of cost management, while investing to capture the long runway of growth opportunities. And we will continue to invest steadily to capture this growth over the medium to long term. Beyond the ongoing growth investment, there is inherent, strong operating leverage in our core transactional business.

In line with our operating plan, investing in people and capabilities is the key to growth. We continue to invest in geographic expansion, with a focus on adding salespeople outside of the UK, particularly in the Netherlands and North America, and in growing our operations team to reflect the increase in clients, transactions and volumes. We hired some 80 new permanent members of staff in 2023, spread across sales and marketing, an increase of 30%, operations and risk, an increase of 32%, and technology, an increase of 45% there.

Following market weakness and our requirement to re-guide in Q4 last year, we did deliver some cost savings to protect profit. We took no actions that would endanger the future growth of business, however. Overall, we saved around £3 million sterling from the prevailing run rate, including the natural drop in performance related remuneration. This is illustrated on the chart, which highlights that annual H2 versus H1 growth in recurring OpEx was contained to around about 23%, low twenties versus previous year, which was close to 40%.

And finally, as you already know, we did incur significant non-recurring expenses relating to our IPO and our public listing in 2023, some £21 million, which you can see in the hatched component of the bar chart there. Overall, recurring OpEx grew by 30% year on year. This is in line with our three-year operating trend. Importantly, our three-year core revenue has significantly outgrown expenses, highlighting the operating leverage within our model.

Can we turn to Slide ten, please?

<u>Slide 10:</u>

So, some comments around our investment in CAB Payments' future. Along with having high margins, we also convert the vast majority of profit into cash and we continue to invest in the future of the organisation. We spent £7.4 million sterling in CapEx in 2023, translating into a capital intensity figure of 5.4%. It is worth, however, noting that this does not include the capital consumed by our new offices, the signing of which didn't occur until early 2024, to accommodate our future growth. We are taking the opportunity to consolidate from two offices down to one. We're vacating our main head office in Sutton, which is due for redevelopment. It's also worth bearing in mind that our exit run rate from a CapEx perspective in December '23 and into 2024 is closely aligned to the medium-term guidance that we've previously given of between 8% and 10% of revenue.

So, we continue to invest in our forthcoming Amsterdam and New York offices, and we expect this to scale up in 2024. And we're also continuing investing in systems and product, everything from additional robotic process automation to implementing AI-enhanced compliance tools, to launching new client, facing features and functionality. And then finally, our operating free cash flow for 2023 was £56.7 million sterling, up from £49.8 million in 2023, with a cash conversion rate of 88%. Can we turn to Slide 11, please?

<u>Slide 11:</u>

Okay. So turning to capital, we thought it would be really useful to explain our capital position and the consumption of this within our business model. As a PRA regulated bank, our prudential rules are governed by Basel III and the CRD V framework. The Group's capital has significantly increased over the last three years from £45 million at the end of 2020 to £107 million at the end of 2023.

Of course, at the same time, we've experienced increased requirements, particularly with respect to operational risk and credit risk exposure. The Group's balance sheet is extremely robust, but its relatively capital like nature does reflect the transactional nature of our activities. So let me take you through some of the detail. Essentially, capital breaks down into three broad buckets: risk-related, business model enabling and a buffer.

So let's go through some of those. Operational risk is a standard requirement and is a function of a rolling three year revenue profile. So as revenue grows, so does this capital requirement. We also have a very low market risk requirement, which indicates the low risk nature of the exposures that we have, i.e. we run, we carry very low and very short term positioning.

We run very high levels of high quality liquid assets, or HQLA, within the asset side allocation of our balance sheet, which attracts a capital risk weight of zero. So as at the end of last year, our HQLA position was £1.3 billion on a total balance sheet of £1.7 billion, or about 75%. We do, however, have non-HQLA late balances which attract capital, which can generally be seen as either yield-enhancing and/or client facilitation. And these are highlighted here.

So we've got local bank accounts, trade finance and overdrafts, some high quality investment grade interbank lending activity and money market funds. And of course, beyond this, you would expect, we run internal buffers to protect from daily volatility. So, an example of that would be a failed FX transaction trade. This results in available capital for future investment of around £34 million at the end of 2023.

We do continue to refine our precise requirements to inform the possible timing of any shareholder distributions, but growth is our priority, and this brings with it capital requirements for the EU licence, the US licence, a possible clearing licence and a further strengthening of our balance sheet. Can we move to Slide 12, please? Thank you.

Slide 12:

So, to summarise before I hand back to Bhairav. Our core business continues to perform well. We have delivered growth in 2023: 25% increase in gross income, 18% increase in adjusted EBITDA, a 14% increase in operating free cash flow, and our core transactional business grew by 28% in 2023 if you exclude the Nigerian Niara.

We have continued to invest in our business, particularly in scalability, capability and talent, particularly in the sales operations, risk and technology departments.

Our solid risk position reflects the transaction nature of our business, and provides us with a significant available capital and the resources for future expansion, along with a well-managed liquidity base. With that, I'm going to hand back to Bhairav.

Bhairav Trivedi

Thank you, Richard. So, you know, Richard has spoken about the numbers in great detail. I am going to provide you much greater detail about various aspects of business performance. I think this is something that everyone has asked us for constantly and today something we're going to delve deeper into. I've broken it down into sections. We'll talk about the market in which we operate. We'll talk about our customer segments, why they come to us, how they performed over time. We'll talk about our key differentiator, our network. What exactly does it comprise of? Is it, you know, accounts, etc? We'll talk about the corridor dynamics in which we operate, and that'll be an interesting slide because you'll see some numbers over time and we'll talk about that in detail and talk about the global impact we have as an organisation.

And finally, I'll bring it all together and summarise what you've heard today, before opening the floor to questions. David will join us on this table at that point.

Slide 14:

So, on Slide 14, let's take a look at the market in which we operate. We are in a large target market and depending on which numbers you look at, the Swift market estimates that this market was over $2 trillion in 2022. In 2023, it went down a little bit. And that's not because, you know, the market inherently has problems. It's more focussed around macroeconomic conditions in these markets. So when exchange rates increase, you'll find volumes tend to go down in these markets. So from our perspective, we operate in a large market. The move towards specialists continues in these markets and we have continued to grow our share in these markets.

So I mentioned the market, that it was above 2 trillion. It's actually fallen slightly. And so, of course, you'll see when we talk about our market share, why we believe our market share has increased in this market. The target market is predominantly in complex environments where global banks are unwilling to participate and almost keen to cede market share to specialists such as CAB.

And this dynamic means the opportunity is growing at about roughly 15% on an annual basis, and we're in a good position to take advantage of that. And then finally, clients have generally considered service, transparency and certainty to be paramount for their transactions. And this lends itself to CAB's heavily invested technology platform and network of bank accounts and partnerships.

So, talking about that, let's talk about the various segments on the next slide.

Slide 15:

So if you look at the slide, we've got there the major market banks is the top piece out there. The second one is IDOs and governments, and the third one is NBFIs and Fintechs and EMFIs. So here I want you to take away that all of our client segments demonstrated year-on-year growth last year.

All client segments contribute consistently to our top 20 clients and they keep getting swapped in and out. So there's a healthy movement across that, which is a good thing because, you know, our clients move in and out of the Top 20. And then finally, major market banks, while the smallest segment, this also provides the greatest growth potential over the coming year for the business.

So let's look at the revenue in each one of the four client segments. I provided the revenue in two columns. One is the revenue growth and then revenue growth ex Naira. So, as we look at that, it's worth pointing out that you, each of the top three, so the major market banks, IDOs and NBFIs and Fintechs have shrunk. H2'22 to '23.

But that is purely because of the impact of Naira. When we see it without the Naira, you'll see these segments have grown pretty significantly. So across all of the regular currencies, they continue to grow with us and continue to drive business across for us. The one anomaly is actually EMFIs, and you'll see EMFIs has grown a bit, and without Naira, and that's because EMFIs don't really do Naira transactions. They tend to be transactions that we call South to North. So they tend to be dollar transactions making balance of payments, etc. in different geographies. So let's move on to the next slide where we talk about our network.

Slide 16:

Effectively, the key messages out here is our network delivery is a key differentiator of our service and is driven primarily by client demand.

So, when clients ask us for certain geographies, we then go out and build up the network further out there. Having many delivery partners allows us to source competitive FX rates that can be passed on to our customers, which allows us to be really competitive in this market and attract customers for us. And finally, we work with licensed and regulated entities in all of our geographies, which allows us to ensure seamless and quick delivery of funds in a secure manner.

So, as I mentioned earlier, the strength and breadth of CAB's network is a key differentiator for us and why we are so successful in this market. In 2023, our total number of banking partners grew by about 15% to 331. So, I want to point out two different types of banking partners we have. We have payment partners, which tend to be, if you've heard it before from us, Nostro accounts, and these tend to be accounts in banks and they allow us to source currency from anywhere, exchange rate from anywhere, and make the payment out through the bank.

On the other hand, you've got liquidity providers, and liquidity providers tend to be organisations that source effects for us and they will make the payment directly into our bank account, which we can then pass on to our customers. So, if you look at the payment partner side, we grew it by about 17% to 218. Liquidity providers, we grew by about 12% to 113.

And we continue to drive forward because growing this network in both current markets and new markets will continue to be a key priority as we look to further diversify the business. We've talked about specific currencies where we've had a slight dislocation. The ability to source FX in each one of these currencies from multiple partners allows us to be significantly more competitive in these markets.

Let's at the next slide take a look at our corridors.

Slide 17:

So, this is this is an interesting slide. I think all along everyone has asked us, show us your volumes, show us your take rates, and then let's talk about revenue. So, I've done that across three different segments. We got the total. We got our major markets and our emerging markets.

And I think on this slide, the key message is our core focus remains emerging markets. So, while we've had about 60% of volume through major markets, it only constituted roughly about 15% of our revenues. Our take rates have grown consistently in emerging markets. So, the one that is probably the most profitable for us - it continues to grow.

And we would expect these to be at least stable, if not further grow going forward. Our business is Pareto distributed. The top 20 corridors over here on the right constitute roughly about 60% of our revenue, and they tend to be a mix of emerging and major markets. So we have several G10 currencies in there as well as emerging currencies.

So, as you'd expect, CAB has several key corridors. This will not surprise you that these corridors, where we have a fundamental advantage in margins, reflect the complexity here. Total volume for CAB in 2023 was flat, so we had £35bn and £34.7bn. And if you recall, I mentioned earlier that we had seen the Swift data indicated that the market had shrunk slightly, so had gone from $2.3 trillion down to about $1.5 trillion.

And the reason for that was because of macroeconomic conditions. And so if you look at the fact that our volume remained flat, our market share actually grew in these segments. So that's an important thing to keep in mind. And volumes actually grew in 11 of our top 20 volume corridors. So that's another thing to keep in mind also.

Take rates continue to grow, a strong indicator of the excellent competitive position of CAB. We spoke about our network; that allows us to provide exceptional take rates. And we saw growth in take rates both overall and in emerging markets. So, we see that across our major markets. It's slightly growing, but marginally, but very small difference. But it's growing pretty significantly on emerging markets.

And as you can see, this has been a pattern over several years. In the table on the right hand side, you can see that the revenue begins to distribute much more evenly as we look at corridors below the top five. Corridors wax and wane in here. And so you will see actually some of our top five corridors in 2023 will drop out of top five in 2024 and others will swap in.

So that's another thing to keep in mind. We spoke about Nigerian Naira. Nigerian Naira is now having some dislocation, so we might see that corridor drop out of that.

So, with that with that, I'm going to move to the next slide.

<u>Slide 18:</u>

Let's talk about our Global Impact. At CAB, it's something that we are extremely proud of. I want you to understand that we remain, as an organisation, strongly focussed on our ESG agenda. Crown Agents Bank was awarded a B Corp certification in 2023 and continues to remain an ECOVADIS Gold member, which indicates that as an organisation we are the top 5% globally on a sustainability level, and we have a strong positive social impact in all of the communities and geographies in which we operate.

A number of exceptionally well-known international development organisations are clients of CAB, including Save the Children and others, and they trust us with substantial quantities of aid money. In several countries, we are the first choice for aid flows into their country.

Late last year, you may not know this, but the president of Seychelles, when they had a major natural disaster issued a proclamation and sent out notification to everyone about Crown Agents Bank's account details, and asked that all aid flows and donations to help rebuild the country from disaster flow through the account.

So that's something we are very proud of. In 2023, around £14 billion of volume we carried was directly related to aid, financial inclusion and remittance flows into these societies. And of course, as I said earlier, this theme makes our people really proud of working for this organisation and we continue to drive forward on that path.

So now that we reached the end of this, I'm going to give you a quick summary and then we'll open it up to questions.

So, while appreciating that 2023 didn't play out as we anticipated when we went to IPO, it was still another year of strong growth in revenue, profit and cash generation, driven by a continued focus of organisation on our strategy.

In 2023 we added another 83 clients, and we are focusing increasingly on the rapid activation of these clients after the onboarding process and some of the growth in 2024 will come from these clients we've onboarded last year who hadn't quite transacted towards the end of the year.

We are investing for growth and diversifying by reducing our concentration risk. Think about concentration across clients, geographies and products. Growth in our client base broadens our reach. Sales investment will be a key focus for us going forward. As mentioned in our announcement, we have several major market banks currently going through the onboarding process. these will add to revenue in 2024.

We also look to diversify our destination corridors, both to attract new clients, and in response to the demand of current clients, who are happy to work with us due to our service performance to date.

And product development is also important for us, both an extension of our current spot FX offering and deepening in our payments capability, which is an even more sticky product for us.

And we are hopeful of receiving our EU licence very soon. If you recall, we had spoken about it in November of last year and it was something that was started off. We been told it should be forthcoming really soon, probably within the next month, and we expect to get the US licence sometime in the second half of the year.

So, these will present great opportunities for growth, as we are able to maximise our customer penetration across these segments.

So, you'll be aware that we have Neeraj Kapur coming on board as CEO of the organisation. Neeraj is rapidly coming up to speed and I very much look forward to working with him. I will take on an adviser role in the organisation and continue to focus on driving our focus on dealing with central banks, dealing with large investors and dealing with major customers across the world.

Finally, we expect to continue to grow the top line in 2024, based on current client growth, the activation and ramping up of newly acquired clients and the opportunities presented in the EU and the US for us.

So with that, I'm going to stop here and will take questions. Thank you.

<u>Q&A</u>

Question: Sandeep Deshpande, JP Morgan:

Just quickly on your 2024, I just want to touch base on that. I mean, you haven't provided any guidance. I mean, clearly second half of last year was pretty challenging. And so maybe that is one of the reasons, but is there any colour you could provide on the business? You've said that you will grow this year and I mean, you know, the consensus has some 7% growth or something, but which is very different from the 25% that you grew last year.

So maybe some kind of colour into what kind of growth one can expect from the organisation this year. Based on what? Not necessarily a projection, but what you're seeing today as such really?

Then secondly, I just want to quickly touch base on the free cash flow. You've had pretty robust free cash flow last year despite the fourth quarter issues as such, really.

But now this year you're going to be hiring a lot of people. And you mentioned that the CapEx is running at the high end of the range or rather, in the guided range, 8 to 10%. Last time you had 8 to 10%, your conversion was 68% or something like that, so is the free cash flow conversion going to go down significantly this year in this current environment?

Bhairav Trivedi

Excellent. So I will let Richard answer, you want to take those?

Richard Hallett:

Yeah, it looks like that's my area. So, in terms of 2024 for Sandeep, you know, we are very early into 2024. We've posted just two sets of internal management accounts for January and February. We are very conscious of what the market consensus is. Broadly speaking, that consensus looks like revenue of about £147m and an adjusted EBITDA of £66m, so around about 45% margin.

We are early in the year. We are focusing on building out the business model this year with, you know, activating new clients, etc., But we don't see any reason at this juncture to modify or encourage that consensus up nor down, for that matter. We're focusing in on the day to day. But let me emphasise a couple of the remarks that I made, and bring it together.

So, I made some comments around NII okay, the forward yield curves are softening or coming down somewhat. And therefore, whilst we are expecting good and NII generation this year, it will be a drag on the overall total income for the year. And I would expect NII to be somewhere in the range of 10% to 15% down.

Let's talk about then the residual part of the business. And I've already made remarks on Nigerian Naira, where we have forecasted, pretty much in line with the exit run rate that we saw in H2 of ‘23. And therefore, the maths is pretty straightforward. We have a pretty straightforward business. You can do the maths and, for the underlying transactional business,
is pretty impressive growth actually.

So we're positive. The year has started as we expected it to. And so, at this juncture we don't feel the need to revise up or revise down 2024. So that's question number one. So forgive me, Sandeep, remind me the heart of your free cash question.

Question: **Sandeep Deshpande: JP Morgan**

Is it going to go down, because of the higher hiring this year as well as the higher CapEx?

Richard Hallett:

Okay. So, our exit run rate from December going into January of this year, capex was in and around the 8% level. And, I would expect us to be in that range by the time we get to the end of the year. We are hiring. But we have also hired 80 new people during the course of the last year.

There is, assimilating those people within the organisation, but there is further headcount that we will be hiring, particularly in Amsterdam on the sales side, in New York, on the sales side and also in the technology department. I still think that our free cash flow generation will be where we expected it to be in the medium term.

Question: James Goodman: Barclays

All right. Thank you. It's James Goodman from Barclays. Yeah, a few for me, please. Maybe just go one by one. We had quite good information back at the IPO on the revenue concentration by corridor. But obviously that's changed a lot with the commentary around Naira, etc, so can you just let us know what maybe the five largest currency corridors are today by revenue, broadly, not in any particular order?

Bhairav Trivedi: CEO

So, we definitely know XOF and XAF are in our top five. The others keep switching in. We've got a couple of major market currencies. If you think about USD, GBP, etc. could potentially be in there. I'm not trying to be cagey. It's just that these things will move in and out constantly. And among the emerging market currencies, we have two or three of them that keep swapping into the top five and moving out of it.

But XOF and XAF are definitely two of our top five currencies.

Question: James Goodman: Barclays

On XOF and XAF, that was my other question really, can we just go back to what happened there in layman's terms and understand why there were these interventions, what precisely those were and what the situation is today and therefore what the outlook might be for those two currency corridors?

David Mountain:

Sure. So, I guess if I step back and look at it in a sort of a more global level. Right. We have a set of clients who have demand, and that demand varies in its elasticity. Right. And so, you know, Development Companies send aid almost regardless of what the conditions are. Remittance Businesses, it will depend on the underlying remitters, banks and the like are depending on corporate flows, which have a lot of short term elasticity but not much medium term elasticity.

Right. All of those flows are client demand. And so we have our client base and they have their demand and we service that demand. On the other side, we've got the markets, and those markets are subject to local geopolitical and physical conditions. And given the nature of the markets we're in, they tend to move up and down a lot.

Right? And so when a market becomes less desirable to send money into, because typically because of a central bank intervention or a change in the way things are implemented, then what you get is, you know, short term drops in volume sometimes, not always, and you get changes in margin, right. And this is the nature of our business. And we've you know, everyone in this room has heard lots and lots about Nigeria in particular. But that same pattern replicates itself throughout the business.

Now in Q4 last year. Well, first of all, in second half last year and Q4 last year, what we expected from XOF and XAF, which at the time were two of our top three currencies, was that the second half would kick on from the first half and we would, you know, frankly, we expected to see them grow a fair bit and that growth underpinned a decent chunk of our business.

We already knew Naira had this variability because of the change of regime and we were counting on typical growth patterns. Now what we actually experienced was a relatively low level of intervention from the regulators where they basically clarify various rules, talk to various parties and did nothing that was really radically dramatic. But the net effect of that was our trajectory went from what we were expecting it to be, to just flatter.

Right. They didn't fall off. It wasn't a disaster. It was just we were quite reliant on them growing. And when that became apparent in October, we realised that some of the bedrock underpinning what we thought was going to be our results wasn't there, which is why we had to go to the market. That was kind of a re-baseline and things have gone fine since then.

So vis-a-vis our budget, both quarters are actually slightly outperforming our budget. You know, we've got varying degrees of optimism with both. We expect them, as Bhairav says, both to be top five this year. So, everything, everything's good. Like, you know, if you look at it from a baseline from October, then everything's really good. If you look at a baseline from where we thought we were going to be last July, it's fine, but not as good as expected.

Question: James Goodman: Barclays

Can you just clarify a bit on the actual interventions that took place, what those were and whether those are still in place or not?

David Mountain:

So, intervention is probably too strong a word. Basically, what happens in these markets is that you have a series of local players who interact with a series of international players. We are one of the international players and we have a very robust network. Bhairav showed you the stats on our payment providers and our liquidity providers. And both of those are relevant, right?

So, our payment providers are where we keep our local liquidity and we actually send the money out of. And so, we're constantly monitoring them to make sure that they're able to deliver the money we need. And our liquidity partners are the people that are Trading Desk call up and say, “Hey, what's the best rate you got for me”, right?

And so what happens in these markets is at any point in time, we've got a large portfolio of Liquidity Partners, which is the main driver of short term economics. And at any point in time, some of them will be hungry, some of them will be less hungry, and we will go with whoever is getting our clients the best rate and what then happens is the regulator will talk to those local licensed players and say, I want you doing X, I want you doing Y.

I want more hard currency staying in the market. I don't want you doing it this way. I do want you doing it that way. And so what happens is we then end up with a liquidity partner who is really keen, giving us fantastic rates, then saying, actually you know what, either I'm out of the market for the next few months, or my rates have now changed.

And so then we move to Liquidity Partner 2, who are not quite as good, right? And so the nature of the interventions we had in XOF and XAF were that we had a very hungry liquidity partner and we were getting very nice margins and a very high win rate for people, like some of our clients who have multi partner panels, and then our liquidity partner, I mean they're all still in business, they’re all still doing the stuff they always do, but they just become less effectively hungry.

And we had a couple of those. And basically what that does is it hits our volumes a bit because we win fewer of the competitive bids and it hits our margins a bit, because across the board our margins come down. And so that was the nature of the intervention. So nothing, nothing big or noticeable unless you're sitting on our trading floor right.

Question: Justin Bates: Canaccord Genuity

Could I just go back to the take rate figure, particularly in emerging markets and give a more colour on that? I was surprised to see that increase, particularly given the guidance you've given previously about perhaps a moderation in take rate. So could you just elaborate on that and perhaps give us an indication of the largest contributor, either in absolute terms to the revenue or by take rate?

Bhairav Trivedi:

I think if you look at the last couple of years, ‘22 and ‘23, the take rate is getting biased a little bit by Nigeria, because we had the Naira coming in even in the first half of last year. And so that has caused the take rate to inch up overall. So again, if I were to look at the largest contributor to take rate, it would probably have been Nigerian Naira.

Over time we’ve found that our take rates tend to be relatively steady in most of the other geographies and as we increase our liquidity partners and our delivery partners, we start to get better and better take rates. As David been mentioned, when we actually expand our delivery network, we do tend to get better take rates because we are now able to source liquidity across multiple people.

Yes. So that's why we believe that these take rates will stay fairly stable moving forward. And they may show some marginal growth going forward, but probably not quite as much as we've seen in the past.

Richard Hallett:

I think it's important to differentiate. That's what actually happened. For planning purposes, we do take a very conservative view on this, so we tend to take a rolling 18 month, 24 month, view to basically normalise out some of the dislocations within that. So, you know, obviously that's actually happened in in 2023. And again I think you'll recall, in one of the other presentations we did, we do expect overall from the independent studies that we've had done, that there is a small contraction in margins overall. But because we are moving into and we specialise in complex markets, the mix shift effect means that actually we get a small uplift there.

Again, we don't plan for that, but we do experience that.

David Mountain:

Yeah, I mean, so like those of you who are payments investors, there's the laws of gravity right? You know, margins always come down. Right. And so I'm totally sympathetic to the world view that says you multiply volume times margins and margins always come down.

We are a global business and there are certain markets where we're market leader and there are a bunch of markets where we're near market leader, but we're not quite there yet. And those markets, we have episodic trades, and we have relatively small liquidity provider networks and we're very competitive - in some cases we have the best rates going - but what we don't have is daily volumes at high levels. And so when we're negotiating with our liquidity partners, we get a certain set of rates. When we pass the threshold, to the point where we have daily volumes every day where we are one of the most meaningful sources of a hard currency in the market, our panel goes deep and you start getting the dynamics I was talking about in XOF and XAF.

You start getting, that fifth LP, who wasn't a reliable enough LP to be our only LP in the market, because they only want hard currency one day in five. But when they want it, they're willing to pay for it, right? And so we get these dynamics where as our markets mature, we just simply get better sustainable margins.

And so the combination of the mix shift, as people use us for our best markets and as those markets mature, will allow us for quite some time to continue to improve margins. Obviously in the long run, when we're the top player in every single global market, gravity will reassert itself, but we're a ways away from that.

Question: Justin Bates, Canaccord Genuity

Okay, thanks. And just a couple of follow-ons. Aid flows as a percentage of the TAM. What would they run at roughly? And then as a second question, what percentage of the volume came from new clients onboarded in calendar year 23? And does that differentiate with prior years?

Bhairav Trivedi:

The first one is aid flows as a percentage of TAM. And the second question is what percentage of volumes came from new customers in 2023?

Richard Hallett:

So Aid Flows was £3.1 billion.

David Mountain:

So, I have that number somewhere on my hard drive. I will look for it. If I can find it right away, I will come back to the whole group with it. We have done that analysis. We don't spend a lot of time talking about TAM, but I'll look for it. And then sorry, second question.

Question: Justin Bates, Canaccord Genuity

And then the second question was what percentage of volume came from new clients signed up in the calendar year? Last year? And did that differ significantly with prior years?

Richard Hallett:

So it's an interesting question. Justin. You know, we onboarded 80 something new customers last year. One of the things that we are focussed on is, one, reducing the time that it takes for us to onboard customers and then importantly to monetise or farm those relationships. And I think it's fair to say that there were some 40 customers that we didn't print meaningful revenue from, from the 80 that we did last year, and we're in the process of monetising those at this moment.

So that's a positive for 2024. And we are, as I said, we're focusing on the operational end to end onboarding and then subsequent sales, farming, of that.

Question: Vivek Raja: Shore Capital

Thanks. Good morning. My name is Vivek Raja from Shore Capital. A couple of questions. The first thing I want to explore was understanding flexibility in your cost base and your resources. So I think you suggested late last year that following the reduction in Naira volumes, you were able to make some reductions. I just wondered as you look to grow, those resources, are they easily, is it easy to reallocate them across the business or is there further scope to reduce cost there assuming Naira flows aren't coming back in your short-term horizon?

Richard Hallett:

So what I would say is Naira is a big market and it is always going to be an influential market when it comes to our business. Pre IPO, back in 2021, we were running roughly around seven percent, and I think we're on record of saying that of our revenue from Naira historically. We think that's going to be less than 5% this year.

But the heart of your question really is around flexibility of deployment of costs. We are a growth business, and we invest in any given year not only for enhanced volumes and client activity in the current year, but more importantly to capitalise on the scalability in future years as well. So we invest ahead of getting the return from a revenue point of view. What I would say is we have an incredibly strong culture of cost management, coming from a PE background.

Our capital light business model is absolutely part of our DNA. And so when we go into any individual planning year, we gate our costs, and our investment spend and our ambition, to the profile of what we're actually seeing in terms of revenue. So, the old adage costs are certain revenue is less certain and therefore we plan a letting out of the rope in terms of our overall ambition, as we see the revenue come in.

So we have some flexibility. Now if I make one remark in terms of the rerate that we did in Q4, in October of last year, obviously that was quite late in the year. And so even with that gating philosophy that we have internally, there was a limited ability to intervene, but we did and we saved £3 million.

Now I'm going to pause there, I've said a lot of words, but I want to understand whether it answered the heart of your question.

Vivek Raja: Shore Capital

Yeah, I think so. I think I need to digest what you said because there's a lot there to take on that's taking on.

Bhairav Trivedi:

But I think it is key to note that we did not compromise any investment in the future growth of the organisation. So if you think about the areas we really reduced our costs on, they were about part-time folks that were working there and making some tweaks on that. I think we made some on the remuneration side of the organisation, on LTIPs etc, and that was where we really made big savings.

Question: Vivek Raja: Shore Capital

I suppose kind of fairly obviously, in terms of the front office staff, the ones that generate flows. Can you redirect them to other markets easily?

David Mountain:

Yes. Absolutely. So I mean we've got one of our sales guys in the US right now selling something to banks, which we're allowed to sell to in the US. We are waiting on our licensing for NBFIs and IDOs, but we're actually literally putting people on planes right now. It's more segment specific than geography specific.

Bhairav Trivedi:

That's right. Our sales is not focussed on specific geographies. It's much rather focussed on segments. So as we look at our client segments are IDOs, our NBFIs etc, that's the split, in terms of where we really focus on.

Michael Goldfarb:

So with that, that will conclude this morning's presentation. Thank you again to everyone for coming. We look forward to speaking again in future. Thanks, everyone.

Thank you.

Thanks, guys. Thanks.