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Crown Agents Bank

CAB Payments Holdings plc

Strategic Update & H1 2024 Results

4 September 2024

moving money where it's needed

Certified B Corporation

Classification: PUBLIC

Introduction

Neeraj Kapur, CEO

Highlights

- Solid performance against backdrop of exceptional prior year period and lower global market volumes
- Serving our purpose – we continue to deliver aid flows and liquidity, allowing communities to thrive in hard-to-reach areas
- 35 new clients onboarded and 526 total active clients
- Continued double-digit growth in core transactions business
- Reducing revenue concentration
- No change to outlook for 2024

Going forward:

- Focus on strategy execution to drive sustainable growth through investment in capabilities including attracting leading global talent

£56m

H1 2024 Gross Income

+14%

Growth in FX & Payments FX Gross Income (ex NGN, XAF and XOF[1])

Gaining market share

+4% vs -10%

Growth in CAB Volumes

Decline in global cross-border payment market

Note:
(1) NGN = Nigerian Naira / XAF = West African Franc / XOF = Central African Franc

Strategic Update

Building on CAB's solid foundations

Neeraj Kapur, CEO

Introduction – initial thoughts after 6 months

CAB today

- Leading B2B cross-border FX transactions provider
- Strong network of liquidity providers and payment partners
- PRA regulated bank with flexible balance sheet
- Specialist in emerging markets but strong presence in G10
- 400+ employees

Differentiators

- B2B focus - Strong client base of Central Banks, Developmental Organisations, Banks and non-bank institutions
- Strong track-record of transaction execution and client satisfaction
- Unparalleled network of Nostro accounts growing year-on-year
- Strong relationships with central banks and regulated liquidity providers

Where next?

Focus on:

- Strategic Execution
- Network
- Global footprint
- Clients
- Scale
- Platform

Strategic pillars to drive long-term sustainable growth

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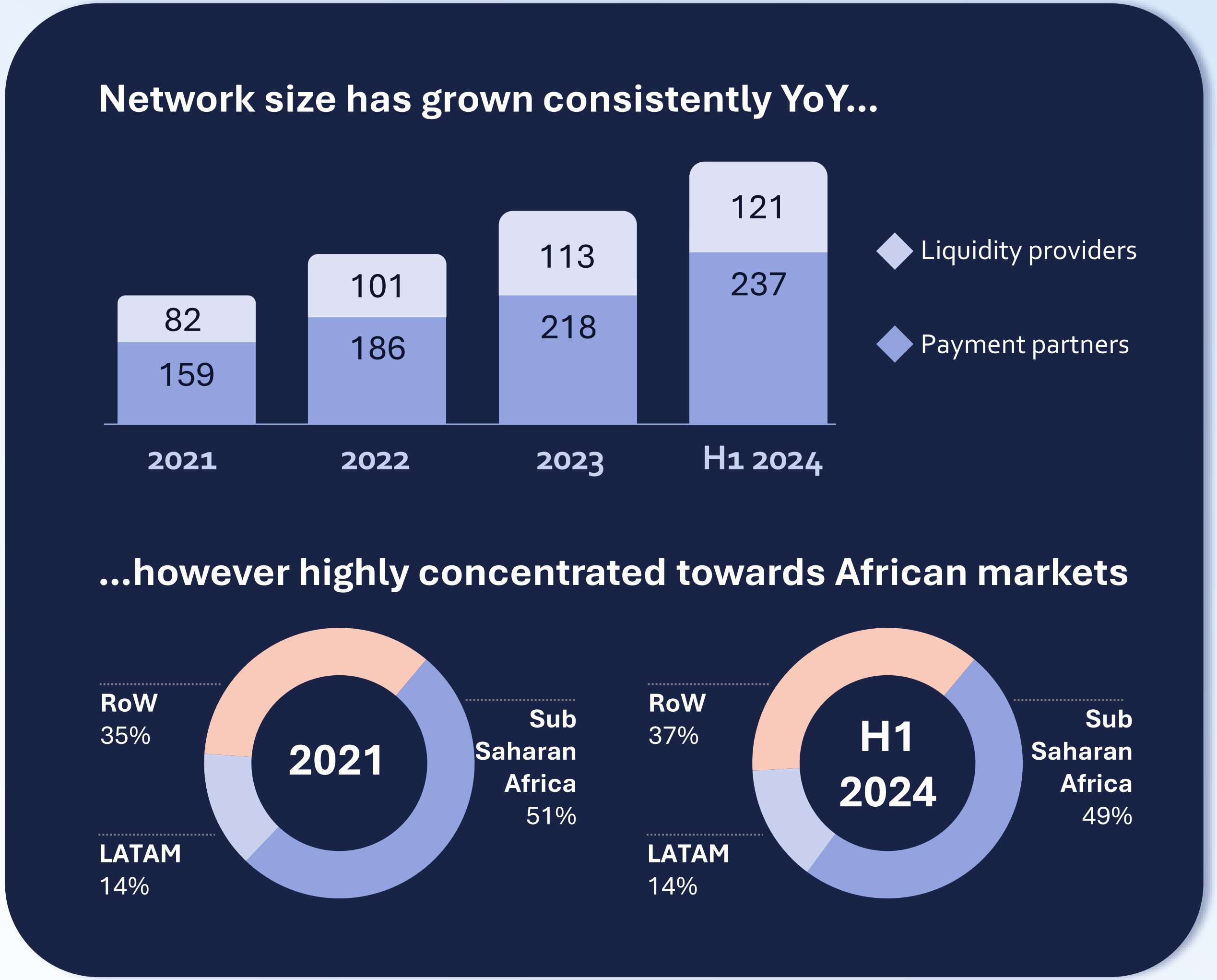
- ✓ Improved diversification
- ✓ Sustainable growth
- ✓ Increased operational leverage

1	**Network**	Strengthen breadth and depth of network
2	**Clients**	Deepen existing relationships, expand the client base
3	**Platform**	Leverage the banking license to accelerate FX and payments volume growth
4	**Invest and innovate**	Disciplined capital management to drive growth

1 Strengthen breadth and depth of network

Assessment:

- Network a key differentiator and driver of the business
- Strong network but only in select markets – concentrated on sub-Saharan African markets
- Managed centrally out of London HQ with little on-the-ground presence
- Payments network focused on low volume, high value



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1 Strengthen breadth and depth of network – moving ahead

Focus Areas:

- Quality of network in Africa especially NGN, XAF, XOF
- Grow overall number of liquidity providers
- Partner with payment providers able to provide high volume payment solutions
- Develop network in LATAM and MENA
- Stronger "in-country" presence

Execution already underway:

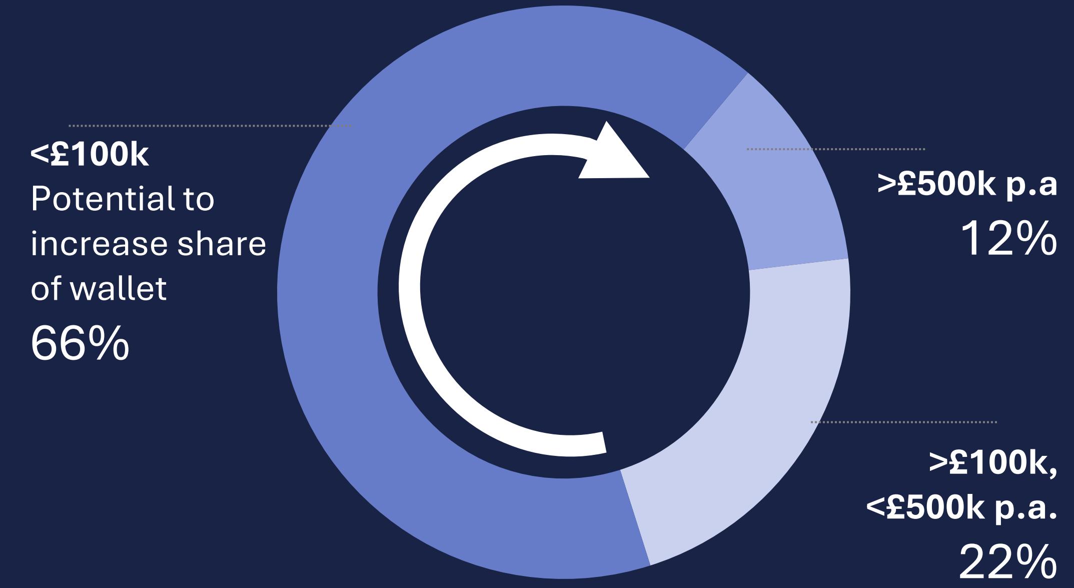
- ✓ New and experienced head of network now in place – team building occurring in local jurisdictions
- ✓ Network quality framework in place
- ✓ Team building on-going in local jurisdictions
- ✓ Central bank relationship build underway in LATAM and MENA
- ✓ Integrate with local specialist payment providers

2 Deepen existing relationships, expand the client base

Assessment:

- Good quality book of clients across central banks, developmental organisations, banks and non-bank institutions
- Major market banks still present a good opportunity but suffer from long sales cycle and implementation
- Long “tail” of customers under-monetised
- Sales effort concentrated from head office

Revenue per active client



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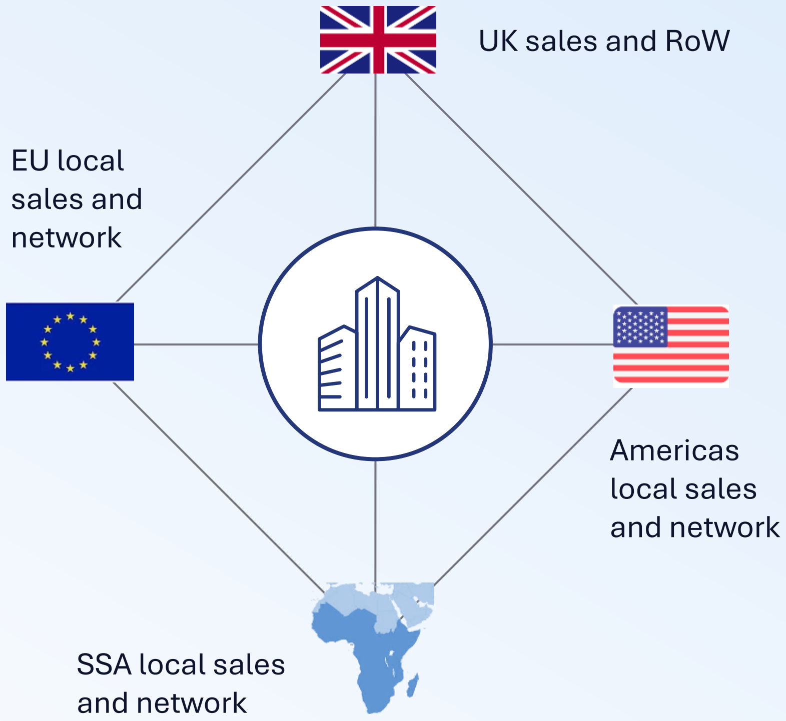
2 New client model to enhance coverage

Focus Areas:

- Grow the sales force, funded through increased revenue trajectory and operating leverage
- Deeper relationships and culture alignment, through more “in-country” touchpoints
- Effective global coverage and distribution model
- Grow number of clients and increase % of transacting clients
- Stronger “in-country” presence
- Exit unprofitable relationships

Decentralised sales model allows for more bespoke “in country” relationships with oversight from HQ



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3 Leverage the banking licence to accelerate FX and payments volume growth

Assessment:

- Strong banking balance sheet
- Above market RoE given capital light configuration
- Conservative asset side allocation
- Credit risk minimal, <1% probability of default with customers
- Full potential of bank not realised to drive transactional and interest income

Strong growing deposit franchise, conservatively invested generated below market net-interest margin

£1.5bn Customer Deposits	+13% CAGR Growth in deposits 2020-2023
>80% Of deposits invested in HQLA[(1)]	2.4% 2023 net interest margin

Note:
(1) HQLA – High Quality Liquid Assets

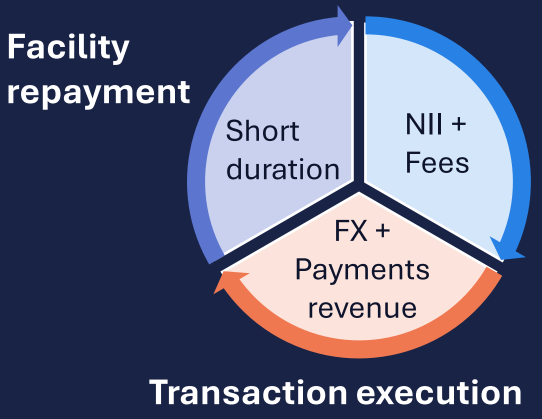
3 Credit initiatives already in progress

Focus Areas:

- Better use of the trade finance and liquidity credit products to service customers' cross-border needs
- Strong credit risk parameters to maintain low probability of default and low risk profile
- Maintaining client relationship and share of wallet through a "one-stop shop" model
- Treasury management, maximise interest income from balance sheet assets – improve asset side allocation

Limits on trade finance and liquidity facilities expanded

Balance sheet utilisation drives growth in FX and Payments



£1 of draw-down is expected to generate £4 of volume given facility turn-over

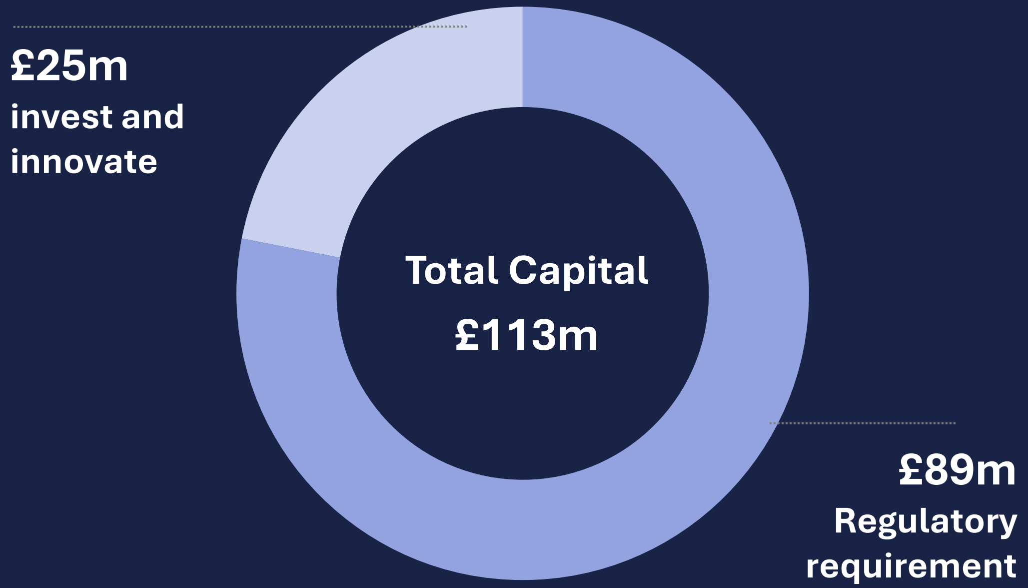
Note:
(1) LaaS – Liquidity as a Service

4 Disciplined capital allocation to drive growth

Assessment:

- Capital allocation prioritised for growth concentrated on technology, balance sheet deployment to accelerate transactional volume
- Banking structure results in a small proportion of total capital being "free" for use
- Capital requirements, particularly operational risk, heavily linked to revenue growth given capital light nature – increases as the business grows
- Given growth journey and after investment in technology and balance sheet utilisation - negligible amount available for distribution

Significant amount of capital used to satisfy regulatory requirement
as at 30 June 2024



Note:
(1) HQLA – High Quality Liquid Assets

4 Organic growth capital focused on building and enhancing the technology stack

Product

- FX Derivatives
- FX settlement through PVP[(1)]
- Expanding global payments reach through Visa partnership

Processing

- Enhanced straight-through-processing
- Robotic process automation

Protection

- New AI Transaction Monitoring platform
- Enhanced AI Payment Screening
- Enhanced Information security monitoring and defence

Platform

- Expand and upgrade FX & Payment platforms
- Scalability
- International expansion

c.£15m tech capex spend for 2024

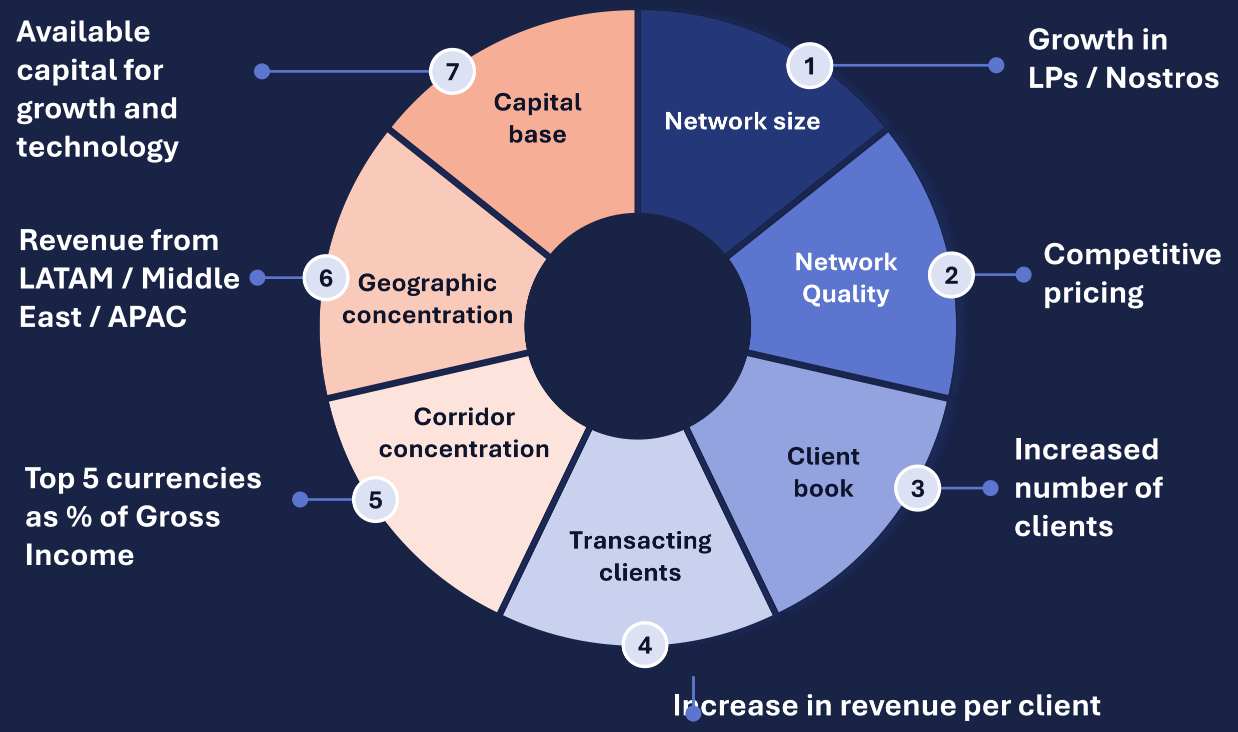
Note:
(1) PVP – payment versus payment

Strategy delivers sustainable growth and a more diversified business

Focus on execution results in a stronger, more resilient CAB:

- Sustainable and attractive YoY growth
- Diversified international business model
- Robust operational infrastructure and processes
- A true market leader in emerging markets FX and payments
- Led by a world-class talent with a track record of execution

KPIs to measure strategic progress



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Leading talent to drive change

Global Head of Sales
Kirsty Garrett

To drive a new global sales organisation. Build new relationships and cement existing ones

Head of Payments
Claire Gates

Improve payments infrastructure, grow the payments business

CEO – CAB Europe
Kostas Konstantis

Drive new sales and deliver growth in the Europe region

European Head
Thomas Friesleben

Lead the sales effort in Germany, Austria, Eastern Europe and Nordics

COO
Stuart Houlston

Oversee technology change, platform scalability, operational efficiency

Head of Network
Darren Gaffney

Drive network expansion into new geographies

Global Structuring
Matt Talty

Enhanced use of balance sheet to drive returns

Active recruitment:

- **CEO – US**
- **CEO – MENA**
- **General Counsel**

HY 2024

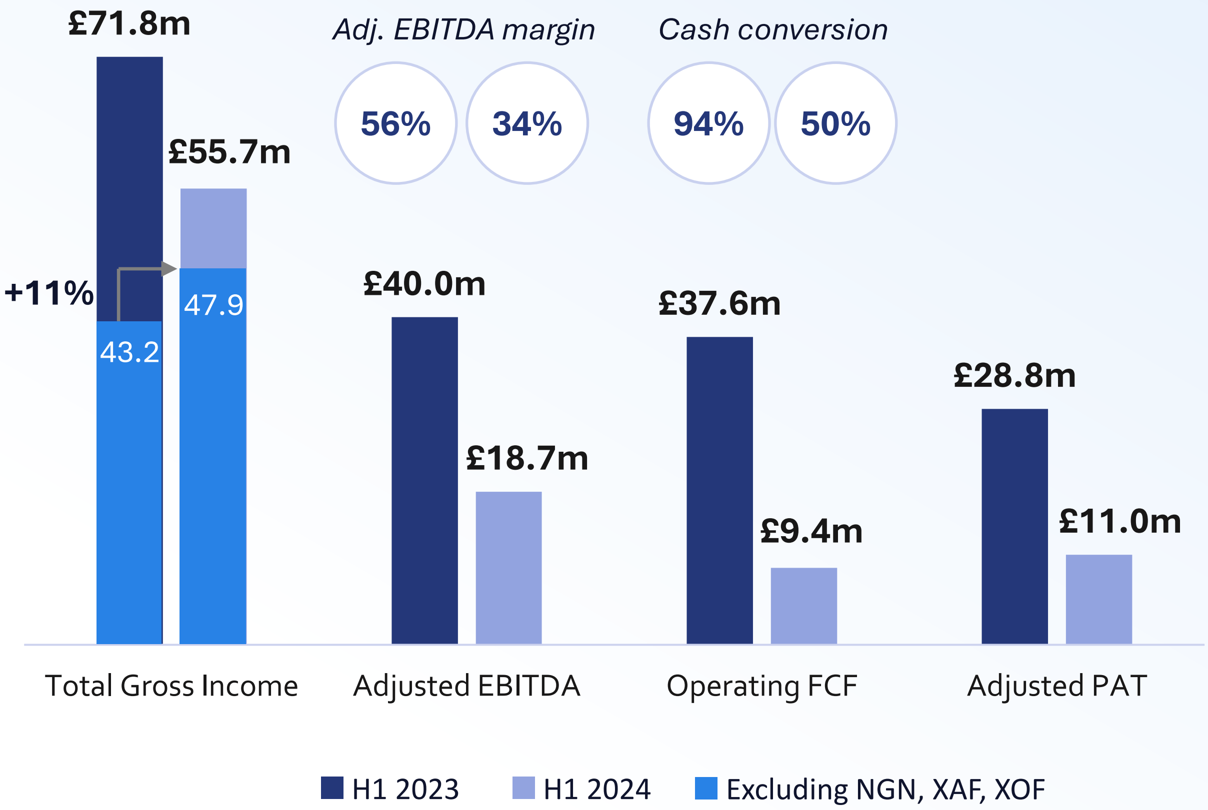
Financial Performance

Richard Hallett, CFO

H1 2024 performance snapshot

Resilient performance versus exceptional prior year, double digit income growth excluding NGN, XAF, XOF

(all figures in £m)



- 22% fall in total income reflects exceptional NGN performance in prior year
- Adjusting for NGN, XOF XAF - Gross Income +11%
- Adjusted EBITDA down 53% - significant revenue decrease and higher run-rate opex due to growth in people, tech and global office footprint
- Operating free cash flow down 75% - significant increase in Capex spend vs prior year
- Adjusted PAT down 62% reflecting lower Adj. EBITDA and higher D&A
- Now on a more sustainable path

Note:
refer to the alternative performance measures of the interim report for definition and calculation of the above metrics

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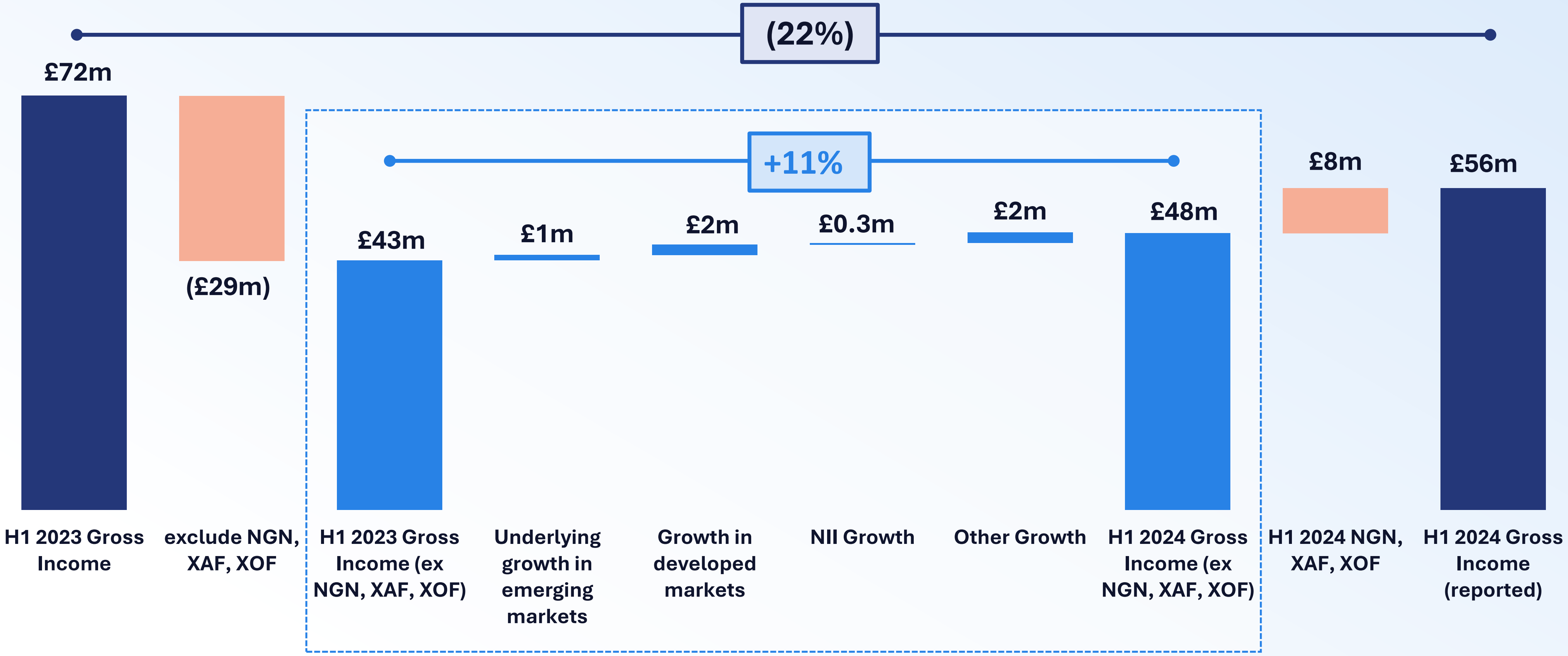
Gross Income

Y-o-Y decline reflects reset profile without benefits of dislocations



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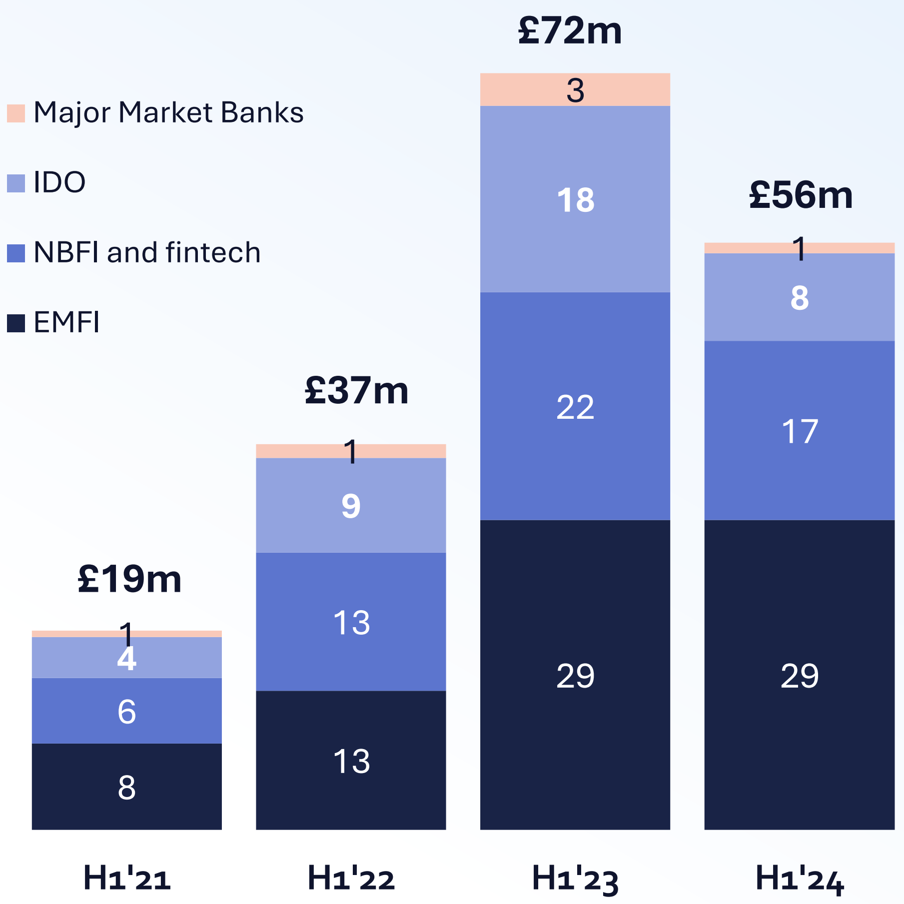
Client segments

Revenue by Segment (£M) *(1)*



Good quality YoY growth in EMFI (inc CBs) and NBFI clients <u>when excluding NGN, XAF, XOF</u>

Emerging Market Financial Institutions
+18%

Non-bank Financial Institutions
+10%

International Development Organisations
+8%

Major Market Banks
flat

Note:
(1) Includes NGN, XAF, XOF

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Corridor performance

Volumes improved in a declining market, margins grew sustainably; diversification improved

Volume and take rate by corridor

Category	Volume		Take Rate	
	H1 23	*H1 24*	*H1 23*	*H1 24*
Total	16.9	17.6	0.28%	0.17%
Major markets	10.0	10.8	0.06%	0.07%
Emerging markets	7.0	6.8	0.61%	0.33%
Emerging markets (ex NGN, XAF, XOF)	4.0	4.4	0.34%	0.33%

Corridor concentration as % of revenue

	2020	2021	2022	2023	H1 23	H1 24
Top 5	37%	48%	49%	45%	49%	32%
Top 10	47%	59%	63%	53%	58%	41%
Top 20	63%	68%	69%	59%	63%	49%

Emerging markets[1]

- Resilient take rates in emerging markets at 0.33% (broadly flat YoY)
- Volumes up 9% - good underlying growth in remainder of business

Major markets

- Volumes increased at marginally higher take rates reflecting strong central bank activity

Concentration

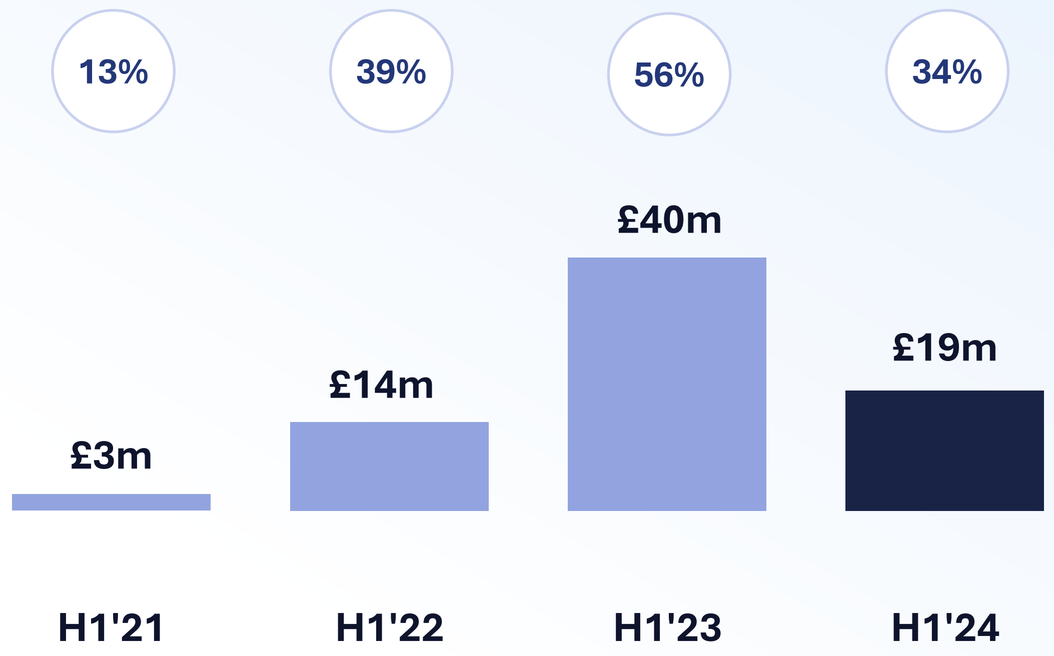
- Reduced significantly from prior year

Note:
(1) All stats exclude NGN, XAF and XOF

Adj. EBITDA margin of 34%, expect improvement in H2

Continued investment for growth despite falling revenue results in margin compression

Adjusted EBITDA (£m) and Adjusted EBITDA Margin (1) (%)



- Continued to invest in business to prepare for next phase of growth
- Costs up by £5.5m due to:
  - Annualization of hires made in 2023
  - Investment in technology to support larger organisation
  - Larger global footprint (UK, EU, US)
- Decline in revenue and increase in costs = lower margin vs prior year
- Expect operating leverage to improve as revenue growth H-o-H outpaces a marginal increase in costs
- Expect blended margin of high-30s for FY24

Notes:
(1) Adjusted EBITDA margin defined as adjusted EBITDA / total gross income; is calculated excluding non-recurring items;

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Cash generation lower however still healthy

Lower adj. EBITDA and higher capex drives lower cash generation and conversion

- H1 2024 capex spend of £9.0m (H1 2023: £2.2m)
  - Core Capex[1] of £6.8m (H1 2023: £2.0m)
  - Additional fixed-asset Capex of £2.2m (H1 2023: £0.2m) due to fit-out costs of new London Bridge HQ of c.£2m
- Core Capex / Gross Income[2] = 12% (H1 2022: 3%)
- Expect c.£15m Core Capex spend for 2024

Notes:
(1) Core capex: Defined as capital expenditure on intangible assets
(2) Also known as capital intensity
(3) Operating FCF (OpFCF) defined as adjusted EBITDA less Capex;
(4) Cash Conversion calculated as OpFCF / adjusted EBITDA.

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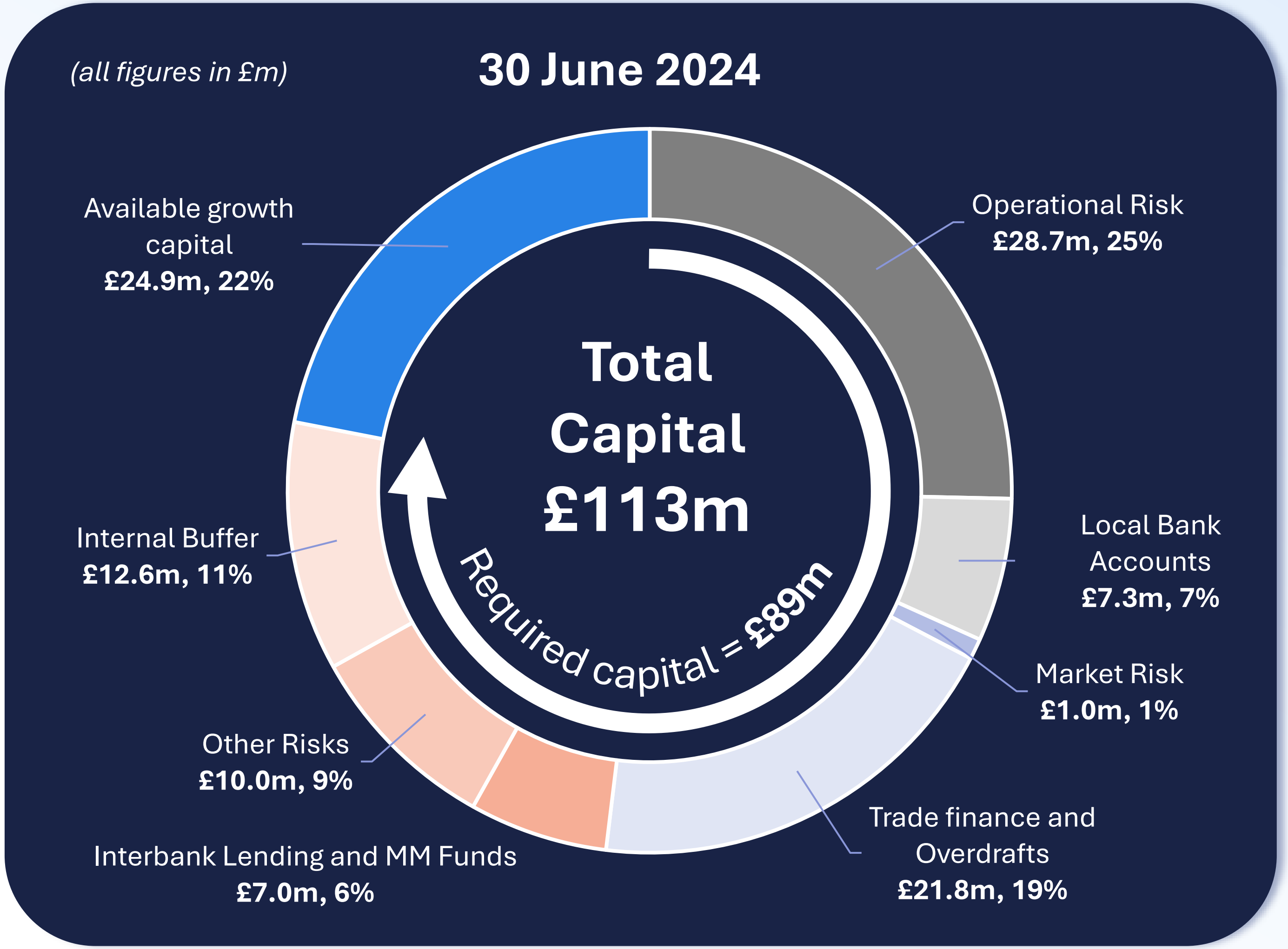
Capital

Strong capital base however utilisation driven by increased trade finance balances vs FY23



- Trade finance balances increased significantly as a result of increased limits - associated additional income impact to come
- PRA regulatory capital requirements dictated largely by operational risk; a proportion of last three years rolling average revenue
- Faster revenue growth = higher capital charge

Note: See appendix for description of categories

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Outlook for 2024

Expect 2024 Gross income to be marginally below 2023[1]

1 **BAU Growth**

- No tailwinds in H1 and good momentum into H2
- Significant cultural holidays in Q4
- IDO seasonal spend / “use it or lose” it approach to budgeting

and...

2 **Strategic initiatives in place**

- Trade finance and Liquidity facilities limits increased towards the end of Q2. Full-income effect in H2
- Small contribution from initial sales from European office
- New sales incentivisation / structures in place to ramp up core sales

+ Marginal increase in costs in H2 = Adjusted EBITDA margin in the high 30s for FY24

Historic HoH Gross Income growth dynamics[2]:

- H2 2023 vs H1 2023 = 22% growth
- H2 2022 vs H1 2022 = 57% growth

Note:
(1) FY23 Gross income was £137m
(2) On an ex-NGN, XAF, XOF basis

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Closing remarks

Neeraj Kapur, CEO

Summary: an exciting future for CAB

- ✓ Solid foundations already in place, a market leader in emerging markets FX & Payments
- ✓ Fundamental business model unchanged, now moving to focused operational execution
- ✓ World class senior hires now in place to deliver strategy and drive the business forward
- ✓ Highly cash generative model funds future growth
- ✓ Entering an exciting next phase of sustainable growth

1. **Network**
   Strengthen breadth and depth of network
2. **Clients**
   Deepen existing relationships, expand the client base
3. **Platform**
   Leverage the banking license to accelerate FX and payments volume growth
4. **Invest and innovate**
   Disciplined capital management to drive growth

Appendix

Our Purpose

Through our network, sustainably unlocking the prosperity of the global communities we serve moving money when and where it's needed

Driving financial inclusion
Providing **backbone to make financial services accessible** and **affordable**

Formalising financial markets
Digital payments via **UK regulated bank** provide **enhanced transparency, security** and **traceability**

Strengthening local economies
Facilitating cost-effective **transactions for multilateral development banks, businesses** and **charities**

	LTM Flows[1]
Development aid flows	£2.9bn
Flows into low and lower-middle income countries	£8.6bn[2]
Remittance flows	£1.8bn

Note:
Source: company information, SWIFT Watch, World Bank, IMF
(1) 12 months to 20 June 2024
(2) £11.2 billion shown at an exchange rate of 1.3

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P&L – management basis

£m	H1 2024	H1 2023	YoY	YoY (1)
	Six months ended 30 June			
Wholesale FX	**22.9**	**37.8**	**(39%)**	**24%**
Payments	**14.1**	**16.8**	**(16%)**	**(0%)**
of which				
Payments FX	7.0	10.4	(33%)	(14%)
Other Payments	7.1	6.4	11%	12%
Total transactional income	**37.0**	**54.6**	**(32%)**	**12%**
Net interest income from cash management	16.2	15.8	2%	2%
Other banking services	2.5	1.4	87%	87%
Total Gross Income	**55.7**	**71.8**	**(22%)**	**11%**
Underlying operating expenses	(37.6)	(32.2)	17%	
IFRS 16 and Impairment	0.6	0.4	64%	
Adjusted EBITDA	**18.7**	**40.0**	**(53%)**	
Adj. EBITDA Margin	*33.5%*	*55.7%*		
Depreciation & Amortisation	(3.8)	(3.0)	25%	
add back: IFRS 16 Interest Expense	(0.2)	(0.0)		
Adjusted PBT	**14.7**	**36.9**	**(60%)**	
Tax	(3.7)	(8.1)	(55%)	
Adjusted PAT	**11.0**	**28.8**	**(62%)**	

Note:
(1) ex NGN, XOF, XAF

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Other Key KPIs

	2024	2023	YoY
Capital & Investment			
Core Capex (£m)	6.8	2.0	238%
Capital intensity (% of Total Income)	12%	3%	
Operating Free Cash Flow (£m)	9.4	37.6	(75)%
Cash Conversion (%)	50%	94%	
Total Capital (£m)	113.5	93.0	22%
Available Capital (£m)	24.9	38.7	(36)%
CET1 Ratio (%)	22.5%	29.9%	(25)%
Income			
Wholesale FX & Payments FX	29.9	48.2	(38)%
Wholesale FX & Payments FX (ex NGN, XAF, XOF) (£m)	22.0	19.6	13%

	2024	2023	YoY
Income by client type			
EMFI (£m)	29.4	29.4	(0)%
IDO (£m)	8.3	17.7	(53)%
Major Market Banks (£m)	1.0	3.1	(66)%
NBFI and Fintech (£m)	17.0	21.6	(21)%

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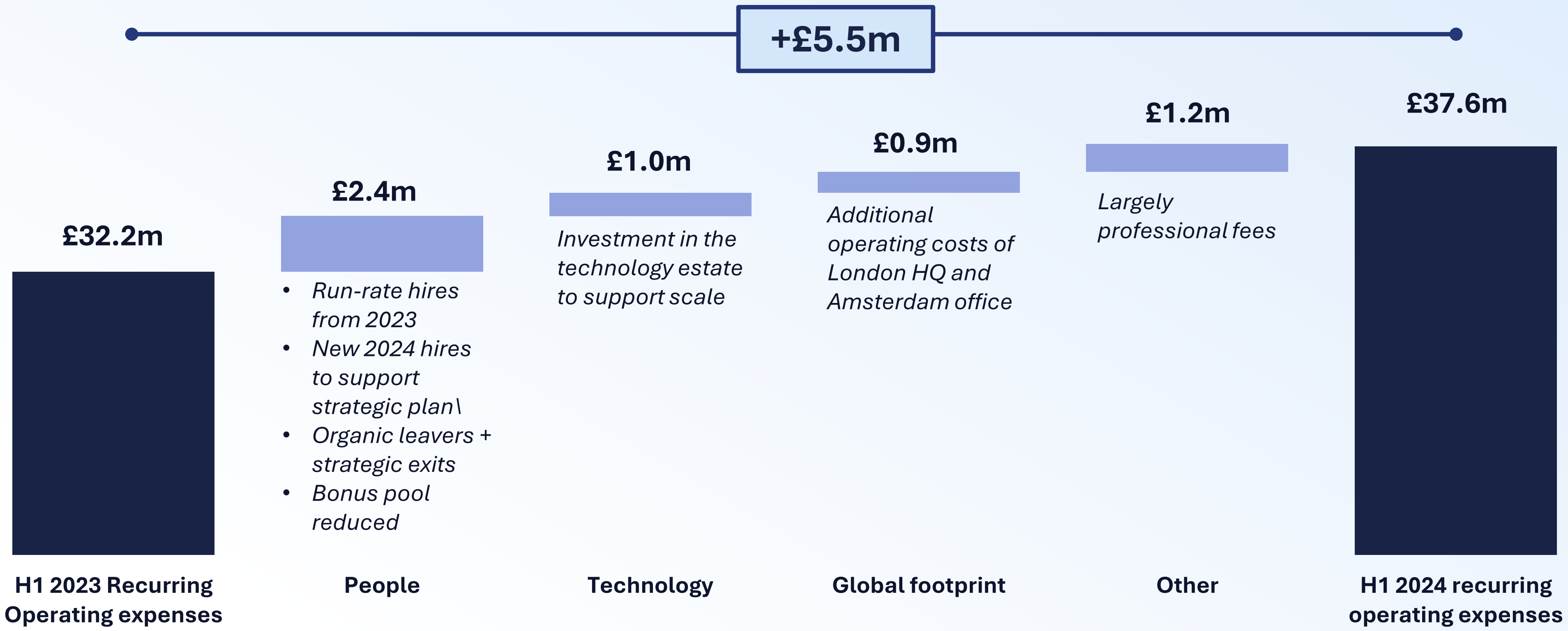
Gross income progression

£m	H1 2022	H2 2022	H1 2023	H2 2023	H1 2024
Wholesale FX	**20.2**	**42.8**	**37.8**	**30.6**	**22.9**
Payments	**13.2**	**20.8**	**16.8**	**16.8**	**14.2**
of which					
Payments FX	6.5	13.2	10.4	9.7	7.0
Other Payments	6.7	7.6	6.4	7.1	7.2
Total transactional income	**33.4**	**63.6**	**54.6**	**47.4**	**37.0**
Net interest income from cash management	2.2	7.9	15.8	15.9	16.2
Other banking services	1.4	0.9	1.4	2.0	2.6
Total Gross Income	**37.0**	**72.4**	**71.8**	**65.3**	**55.7**

Note:
(1) ex NGN, XOF, XAF

Operating expenses

Higher run-rate costs reflect expanding business, headcount and geographic footprint – driving future growth and operating leverage



Capital

The group's overall and available capital has significantly increased over the past 3 years whilst seeing increased capital allocation to operational risk and credit exposures

Operational risk	Standardised calculation for risk as per Basel 3, based on prior 3 years revenue
Local bank accounts	Counterparty risk associated with CABP's proprietary network (funds on account)
Trade finance & overdrafts	Counterparty risk for credit exposures on trade and overdrafts
Interbank lending	Risk associated with treasury related activities
Other risks	Capital associated with items such as fixed assets / debtors
Market risk	Risk associated with FX positions as party of trading activity
Available capital	Capital available for future investment

Alternative performance measures (1/2)

Alternative Performance Measure	How the metric is used	Calculation Definition
Gross Income or Income	As noted in previous years, as a growing organisation, the Group's focus is on driving income growth through controlled investment, whether as capital expenditure or through operating costs.	Total income, net of interest expense.
EBITDA	The key measure of profitability used internally at Executive Committees and Board and with externally with investors.	Calculated as Profit before Tax and IFRS16 lease liability interest, depreciation and amortisation. Although it is typical to calculate EBITDA before interest, our net interest income is generated from operational client deposits and subsequent re-investment to generate returns for the shareholder and therefore remains included within EBITDA.
Adjusted EBITDA	The Group believes that Adjusted EBITDA is a useful measure for investors because it is closely tracked by management to evaluate Group's performance for making financial, strategic and operating decisions, as well as aiding investors to understand and evaluate the underlying trends in the Group's performance period on period, in a comparable manner.	EBITDA before non-recurring operating expenses or exceptional items which have been identified by management.
Adjusted EBITDA Margin	A measure of profitability, by understanding how much of the income is converted to profit.	Adjusted EBITDA as a percentage of Gross Income
Adjusted Profit After Tax (''PAT'')	A measure of profitability based on adjusting the statutory profit after tax by removing identified exceptional items. Although these items may not be classified as non-recurring expenses under IFRS, management believes their inclusion distorts the future expected run rate of costs.	Profit before Tax before non-recurring operating expenses or exceptional items identified by management, after deducting tax figure based on applicable standard HMRC tax rates for the period.

Alternative performance measures (2/2)

Alternative Performance Measure	How the metric is used	Calculation Definition
Adjusted Earnings Per Share (''AEPS'')	The Group consider the Adjusted EPS to better reflect the base line of shareholder value on a go forward basis, when adjusting for one off or exceptional costs and discontinued items.	Adjusted Profit After Tax for the period divided by the total number of called up shares at the period end. Measured in pence.
Operating Free Cash Flow	Measure of cash flow generated by the business. It is a non-statutory measure used by the Board and the senior management team to measure the ability of the Group to support future business expansion, distributions or financing.	Adjusted EBITDA before the cost of purchasing property, plant and equipment, the cost of intangible asset additions and the cost of lease payments.
Operating Free Cash Flow Conversion	A measure used by the Group to understand how much of the Group's profitability (measured as adjusted EBITDA), is converted to available capital for future business growth.	Free cash flow as a percentage of Adjusted EBITDA
Wholesale FX and Payment FX income	Wholesale FX and Payment FX Income is measured collectively by Group as the underlying economic drivers are the same. The income, volume and margins are all measured and monitored, along with the underlying currencies, to help the Group understand broader income performance. The reported figures represents the accumulative income from all trades undertaken during the year, where the income of a single transaction has been generated from the bid / ask spread and any associated payment fees if the Foreign Exchange is then forward to a 3rd party beneficiary.	Net foreign exchange gain

Attractive market opportunity

Short-term dynamics

Strong dollar

Central bank interventions

Focus on domestic policies, reduction in aid flows

-10%
Decline in global payment volumes

-5%
Decline in sub-Saharan Africa payment volumes

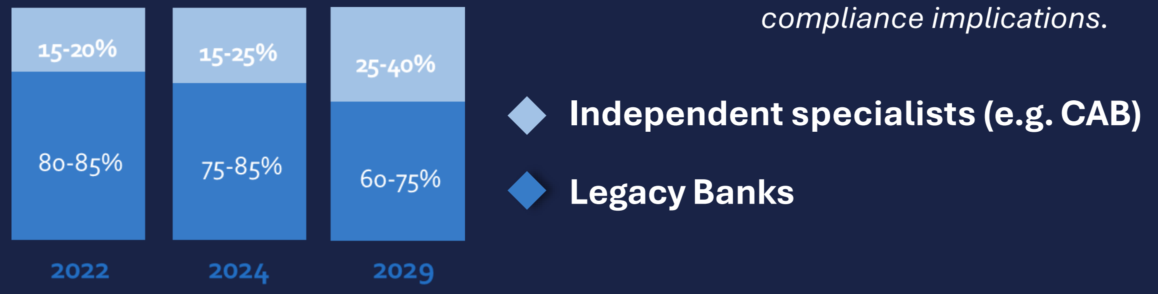
Long-term trends

EM Volume growth

Global GDP and cross-border trade growth, continued increase in migration, new regional free-trade agreements and increasing development flows

Shift to specialist players

Major banks retreat as considered non-core with costly compliance implications.



However....we continue to grow market share

+4%
H1 2024 Growth in Total FX Volumes

+9%
H1 2024 Growth in Emerging markets FX Volumes(1)

CAB relatively small share of the market, scope for growth given expansion in network and sales force

Note:
(1) Excludes NGN, XAF and XOF

Blue chip clients

CAB Payment segments include many of the most important players in emerging market payments

IDOs

- Includes UN organisations, development banks and western governments along with charities
- Tend to be FX clients send aid flows and budgets into market where they work

Major Market Banks

- Banks headquartered in developed (typically G20) markets; includes top global banks
- Buy payments and FX, see CAB Payments as a low risk counterparty who 'removes headaches'

EMFIs

- Emerging market banks and central banks; typically, among the largest in their markets
- Buy banking to get themselves and their clients access to global financial markets

NBFIs

- Fintechs, typically focused on the remittance and FX brokerage sectors
- Buy FX or payments depending on their structure

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