

# eServGlobal

## Banking on HomeSend

14-month results

### Software & comp services

22 May 2018

**Price** **9.62p**
**Market cap** **£87m**

A\$1.8:€1.14:£1

Net cash (A\$m) at 31 December 2017 10.8

Shares in issue 906.85m

Free float 97%

Code ESG

Primary exchange AIM

Secondary exchange ASX

### Share price performance



% 1m 3m 12m

Abs 4.1 (0.8) 81.5

Rel (local) (2.0) (7.8) 71.9

52-week high/low 13.2p 5.3p

### Business description

eServGlobal develops mobile software solutions to support mobile financial services, with a focus on emerging markets. It also has a 35.7% share in the HomeSend cross-border payments hub, alongside Mastercard and BICS.

### Next events

AGM 17 May 2018

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**eServGlobal is a research client of Edison Investment Research Limited**

eServGlobal enters FY18 with a reduced cost base and a fully funded balance sheet; we are forecasting the core business to be close to EBITDA break-even in FY18. With access to Mastercard's sales force and financial institution customer base, HomeSend has signed up a number of banks to use its cross-border payment platform. As these banks shift volumes onto the platform, this should drive strong growth in volumes and move the joint venture towards profitability.

Year end	Revenue (A\$m)	EBITDA* (A\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
10/16	21.6	(7.0)	(3.88)	0.0	N/A	N/A
10/17	10.8	(11.7)	(3.53)	0.0	N/A	N/A
12/17**	12.2	(15.2)	(4.17)	0.0	N/A	N/A
12/18e	19.0	(0.4)	(0.84)	0.0	N/A	N/A

Note: \*PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments. \*\*14-month period.

## FY17 results – core business rightsized

FY17 was another year of restructuring within the core business, with poorly performing legacy contracts cleared out and the cost base reducing to a level that the company believes it can support with revenues from its existing customer base. Contracts worth €5m that the company was aiming to sign by the end of FY17 have been signed post year-end, providing support to the company's target to reach break-even revenues of c €12.5m/A\$19.4m in FY18. At this revenue level and excluding corporate costs, the core business should be able to generate EBITDA margins in the region of 20%, which could make this business a strategic target for a larger mobile software supplier.

## Banking opportunity main focus for HomeSend

HomeSend's initial volumes were from remittances companies, and it continues to support these customers. However, more recently Mastercard has been marketing the HomeSend service to its banking customers for cross-border payments, a much larger addressable market, and has signed up more than 20 banks to date, including one of the largest global financial institutions. Mastercard represents a major sales channel for HomeSend, as HomeSend makes up a crucial part of Mastercard's strategy to generate revenues from a much wider range of services within the payments market, hence

## Valuation: HomeSend the main driver

We believe that the majority of the value of the company is provided by its stake in the HomeSend joint venture. We estimate that the share price is factoring in adoption of HomeSend by banking customers to the tune of c \$5bn in transaction volumes, a small proportion of the cross-border payments market. Evidence of recent bank signings transferring cross-border payments over to the HomeSend platform will be key to supporting and driving the current share price. Contract wins in the core business could also have a more limited impact on the share price.

## Investment summary

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### Supporting mobile money & cross-border payments

eServGlobal's core business sells software to mobile network operators and financial service providers to manage prepaid subscriber top-ups and mobile money wallets, with a focus on developing markets. Growth drivers include the shift to using the mobile phone for financial services, the increasing popularity of mobile peer-to-peer payments, increasing penetration of the existing customer base across additional geographies and the development of channel partners. eServGlobal has also jointly developed a hub for cross-border payments, which operates through its 35.7% stake in the HomeSend joint venture.

### Financials: Entering FY18 with reduced cost base

FY17 revenues were in line with our forecast, reflecting the delay in signing contracts that were expected towards the end of the period. Since year-end, the company has signed €5m worth of these contracts. FY17 gross loss and operating loss reflected the lower revenues and one-off charges relating to the write-down of WIP and receivables. Entering FY18, the company has a much-reduced cost base, and estimates that to reach EBITDA break-even, it requires revenues of €12.8m/A\$19.8m. Management hopes to reduce this to €12.0-12.5m/A\$18.6-19.4m over the course of the year. The company used funds raised in October to pay down all remaining debt and invest in HomeSend, closing FY17 with a net cash position of A\$10.8m. We introduce FY18 forecasts for revenues close to the break-even level and we assume that the joint venture continues to be loss-making in FY18, only reaching break-even in FY19.

### Valuation: Banking adoption of HomeSend key to share price upside

We believe that the majority of the value of the company is provided by its stake in the HomeSend joint venture (c 86% of current share price). We estimate that the share price is factoring in adoption of HomeSend by banking customers to the tune of c \$5bn in transaction volumes, a small proportion of the cross-border payments market. Evidence of recent bank signings transferring cross-border payments over to the HomeSend platform will be key to supporting and driving the current share price. Contract wins in the core business could also have a more limited impact on the share price.

### Sensitivities: Demand, competition, joint venture

Our forecasts and the share price are sensitive to the following factors. **Demand:** the timing and size of contracts in the core business are difficult to predict. **Competition:** eServGlobal's core business competes with other specialist mobile money software providers, as well as with larger mobile telecom-focused companies with wider service offerings. **HomeSend JV:** eServGlobal has limited control over the JV. The JV's ability to reach profitability will depend on adoption of the HomeSend platform by banks and money transfer organisations, the timing of which is uncertain. eServGlobal may need to inject additional funds into the JV. **Economic and political risk:** the company's historic focus on developing countries has exposed it to the risk of political or economic upheaval in those countries; a growing pipeline in a much wider spread of geographies should start to diversify this risk. **Currency:** eServGlobal's functional currency is the euro, while it reports in Australian dollars, leading to sometimes material translational currency gains or losses. In addition, as it has employees in several countries, there is some mismatch between revenues and operating costs.

## Company description: Mobile financial services

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eServGlobal is a software provider specialising in mobile money solutions for mobile network operators and financial service providers. Customers tend to be in developing markets: in FY16, 92% of revenues were generated from the Middle East and Africa. eServGlobal has also developed a hub for cross-border payments, which operates through its stake in the HomeSend joint venture. After a period of restructuring, the company is focused on reaching break-even in its core software business and supporting the growth of the HomeSend JV.

## Company background

eServGlobal was founded in 1983 and has operated several different telecom-related technology businesses. The company currently consists of two businesses: software for mobile money and recharge services and a cross-border payments service (HomeSend). In 2013, eServGlobal created a joint venture with MasterCard and BICS for the HomeSend service, of which it now owns 35.7%. eServGlobal listed on the ASX in 2000 and AIM in 2004.

The company is currently led by Executive Chairman John Conoley, who was previously the CEO of Psion (where he restructured the business before its sale to Motorola). John joined the board as a non-executive director in 2013 and took on the executive chairman role in 2015. Andrew Hayward joined as CFO in 2016. James Hume, CTO for many years, assumed the COO role in 2016.

## Core business: Mobile top-up software

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The core business of eServGlobal develops, sells and installs software to manage money on a mobile phone. The software is based on eServGlobal's PayMobile platform; the latest version (4.0) was launched recently and provides a modular approach that allows customers to add features and services as subscriber demand allows.

Customers are typically mobile network operators (MNOs); the nature of eServGlobal's products means the customer focus is more towards developing countries where subscribers tend to prepay rather than use post-pay contracts. The PayMobile platform offers:

- **Recharge solutions:** voucher management solutions (VMS) and electronic voucher distribution (EVD) for prepaid subscribers.
- **Mobile Money:** this supports the conversion of cash to electronic value and conversion back to cash, ie a mobile wallet.

eServGlobal's PayMobile platform recharge solutions offer voucher creation, distribution in an agent network, sales and fulfilment (physical or electronic), a reporting service and a promotions engine. Roughly 80% of revenues are generated from Recharge (VMS and EVD). eServGlobal's Mobile Money software enables MNOs to provide their subscribers with a mobile wallet to support domestic money transfers. As well as supporting peer-to-peer payments, the software can be used for bill payments (eg paying for water or electricity in advance without having to travel to a utility's office), G2P (government disbursements such as salaries, pensions or benefits), aid payments and P2G (payments to the government for things like tax). The company is looking to upgrade existing Recharge customers to its Mobile Money solution, as well as targeting new customers with the solution. For more background on the prepaid and mobile money markets see [On the front foot](#) (September 2016).

## Customer base – developing markets

eServGlobal's customers are based in the Middle East, Africa and Asia-Pacific. In the table below, we show some of the customers that have been publicly announced (this list is not comprehensive). We have calculated the total numbers of subscribers served by these customers at the group level and identified, where possible, in which countries those customers have live services supported by eServGlobal. Even in the countries where services are live, operators do not always have licences covering their entire subscriber base and this is an area for potential licence extensions as subscriber adoption of services grows.

<b>Exhibit 1: Selected eServGlobal customers</b>				
Customer	Countries of operation	Total subs (m)	Countries with live eServGlobal services	Est subs covered (m)
du	UAE	9.0	UAE	9.0
Ooredoo	Qatar, Kuwait, Algeria, Tunisia, Myanmar, Maldives, Iraq, Oman, Palestine, Indonesia, Singapore, Laos	150.0	Algeria, Tunisia, Iraq, Indonesia (Indosat)	132.0
Zain	Bahrain, Iraq, Jordan, Kuwait, Lebanon, Morocco, Saudi Arabia, South Sudan, Sudan	45.3	Iraq, Jordan, Kuwait, Saudi Arabia	28.7
Total		204.3		169.7

Source: eServGlobal, company reports, Edison Investment Research

## Competition

The core business competes with a variety of mobile billing software providers, most frequently with the companies in Exhibit 2.

<b>Exhibit 2: Competitive environment</b>			
Company	Ownership	Recharge (R)/ Mobile money (M)	Comments
Ericsson		R	Sells recharge as part of converged billing solutions
Huawei		R	Sells recharge as part of converged billing solutions
Mahindra Comviva	Tech Mahindra	R, M	Customers include Ethio Telecom, Vodafone Egypt. Claims 10% of the world's recharge is done using Comviva's PreTUPS software.
Telepin Software	Constellation Software	R, M	Canada-based; active in the Middle East, Africa and the Americas. More than 40 active deployments covering >132m subs and >1m merchants. Customers include Cable & Wireless Panama, Singtel Mobile (Singapore), Etisalat Afghanistan, Millicom (DRC, Rwanda, Tanzania). Bought by Volaris Group, a subsidiary of Constellation Software (TSX-listed), in 2017.
Utiba	Amdocs	R, M	Singapore-based. Customers include Digicel (Haiti), BSNL (India), True Corp (Thailand). Deployments in 36 countries covering 660m subs and >6m agents.

Source: Edison Investment Research

## Strategic focus – build recurring revenue base

The company has been through a long restructuring process in order to improve the efficiency of its sales process, to focus on profitable customers and to shift the structure of contracts to include more recurring elements. This has entailed, amongst other things, a reduction in headcount across several functions, the clean-up of various contracts where work-in-progress exceeded the amount that could be recovered, and provisions against several doubtful debts. The sales team has been reorganised, and the agent footprint reduced, with an increased focus on direct sales. Partners will still be used, but these are likely to be well-established multi-national organisations – the company recently launched a channel partner programme. To improve profitability, the business is promoting its software in a virtualised format, reducing the volume of low margin hardware sales.

More recently, recharge contracts with analytics functionality have been signed on a multi-year basis, which increases the level of recurring revenues and hence visibility. In addition to maximising the opportunity available from its existing customer base, the company is working to widen its geographic reach, in particular in Asia Pacific.

Management has focused on reducing the cost base to more accurately match the base level of revenues it believes can be generated from its existing customer base. Clean<sup>1</sup> administrative costs fell from A\$21.8m in FY15 to A\$12.8m in the 12 months to October 2017 and A\$14.5m for FY17 (14 months ended 31 December 2017). The company is targeting an EBITDA break-even revenue level of €12m/A\$18.6m in FY18. It believes that this level of revenues could be achieved from the existing customer base, for example, as €2m in deferred revenues, €5m in recurring revenues (eg maintenance revenues, subscription licences) and a further €5m in changes and upgrades to licences. The enhanced focus on existing customers may result in a lower volume of new customer sales than the company has previously reported, but should result in higher quality and therefore more profitable orders.

The company has noted that central/PLC costs are in the region of €2.4m/A\$3.7m per annum. Excluding these costs, at €12m/A\$18.6m in revenues, the core business could generate an EBITDA margin of 20%. This highlights that the business could be of interest to a larger player or consolidator in this market who may be attracted by the strong relationship the business has with a number of Middle Eastern MNO customers.

## HomeSend JV

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eServGlobal has a 35.69% stake in the HomeSend JV (the other partners are Mastercard with 56.09% and BICS with 8.21%). HomeSend is a cross-border payments platform. For the history of how the JV was created see [Supporting mobile money in the developing world](#) (August 2015).

### Supporting cross-border payments

HomeSend's platform aims to reduce the cost and speed up the process of sending money internationally. Its main focus is on supporting banks to make cross-border payments, a market that generates transaction volumes worth many trillions of dollars a year. HomeSend has proven the efficacy of its platform in the international remittances market and is now working, in many cases via Mastercard, with banking customers to help them transfer cross-border payment transactions onto the platform. Other applications that could make use of the platform include e-commerce cross-border transactions and disbursements eg ride hailing services with administration hubs in a few countries paying drivers in other countries or online retailers with merchants and consumers in different countries.

### Banking – the killer app

Typically, a bank will not have direct relationships with all recipient banks in other countries. Instead, it maintains a series of correspondent banking relationships ie banks that sit between the sending and recipient banks which use local knowledge to transfer funds. Each bank in the process adds processing time and fees, making cross-border payments more costly than domestic payments, as well as slower and more error-prone. Use of the HomeSend platform means that banks can bypass their correspondent banking relationships, reducing the cost and increasing the efficiency of the process.

### The HomeSend hub – how it works

The HomeSend hub connects the payment systems of the different hub members and processes the individual end-user transactions. It also acts as a clearing house that manages the multilateral settlement with the connected service providers. Members of the hub can get access to all other members through a single connection and commercial relationship.

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<sup>1</sup> Excludes exceptional items, FX gains/losses, depreciation & amortisation, and share-based payments.

HomeSend has technical integrations with a large number of MNOs and sending organisations (banks, MTOs<sup>2</sup>, post offices, payment processors, etc). To join the HomeSend hub, a company needs to technically integrate into the platform and then enter into commercial agreements with its opposite numbers in the corridors in which it wants to operate. This is a more efficient method than creating a commercial agreement with each necessary party and then creating the technical connections for each corridor. Customers can send and receive money via HomeSend using cash, mobile wallets, debit/credit cards or direct bank transfers, as well as traditional pick-up methods. The transfer is done in near real-time compared to hours or days for traditional remittance methods. In addition, senders and receivers have full transparency over the cost of the transaction and the amount that will be received. The hub has send/receive capabilities in 100 countries.

## **Remittances were the first application for HomeSend**

The first companies to sign up to use HomeSend were MTOs, we believe to supplement their existing remittance networks. This enables them to access countries where they do not have an existing agent network or to make use of mobile wallet capabilities, in order to expand their networks at much lower incremental cost. In other cases, sending organisations use HomeSend for lowest cost routing. We understand that the vast majority of revenues generated by HomeSend to date have been from remittances. Notable MTOs using HomeSend include, MoneyGram (the world's second largest MTO), WorldRemit and Azimo. To appreciate the size of the addressable market, according to the World Bank, global remittances totalled \$574bn in 2016. For further information on the international remittances market see [On the front foot](#) (September 2016).

## **Banks signing up & going live**

HomeSend and Mastercard identified that the HomeSend hub could support banks making cross-border payments, a market that is multiple times larger than the international remittance market. The company estimates that this amounts to an addressable market of \$22 trillion in payment volumes. Entry into this market presents a significant opportunity for the joint venture to grow revenues; with a relatively fixed cost base, growth in volumes processed from this market would have a significant positive impact on the profitability of the joint venture.

## **HomeSend a key building block in Mastercard's growth strategy**

Mastercard announced in 2015 that its Mastercard Send service would use HomeSend for international payments and remittances. Through a single connection to the Mastercard Send platform, businesses, merchants, issuers, governments, non-profits and other senders can send money to consumers and businesses whether they are banked or unbanked, and located domestically or abroad. Senders or recipients do not need to be Mastercard cardholders.

In a recent analyst presentation, Mastercard demonstrated how important HomeSend is to its cross-border transaction capabilities (see Exhibit 3). Mastercard's traditional card business addresses the \$45 trillion personal consumption expenditure market, of which card payments make up nearly half. In recent years Mastercard has invested in expanding the services it can offer in addition to debit and credit card payments and has identified a further \$180 trillion in payments volumes that it could address. These are in the business-to-business (B2B), peer-to-peer (P2P), and business-to-consumer (B2C) markets, and the company intends to support them via its recent Vocalink acquisition (for faster payments) and Mastercard Send, as well as with the existing cards business.

After Q118 results published in May, Mastercard's CEO discussed the B2B hub, which includes HomeSend. He said *"The idea there is to streamline accounts payable which otherwise has over*

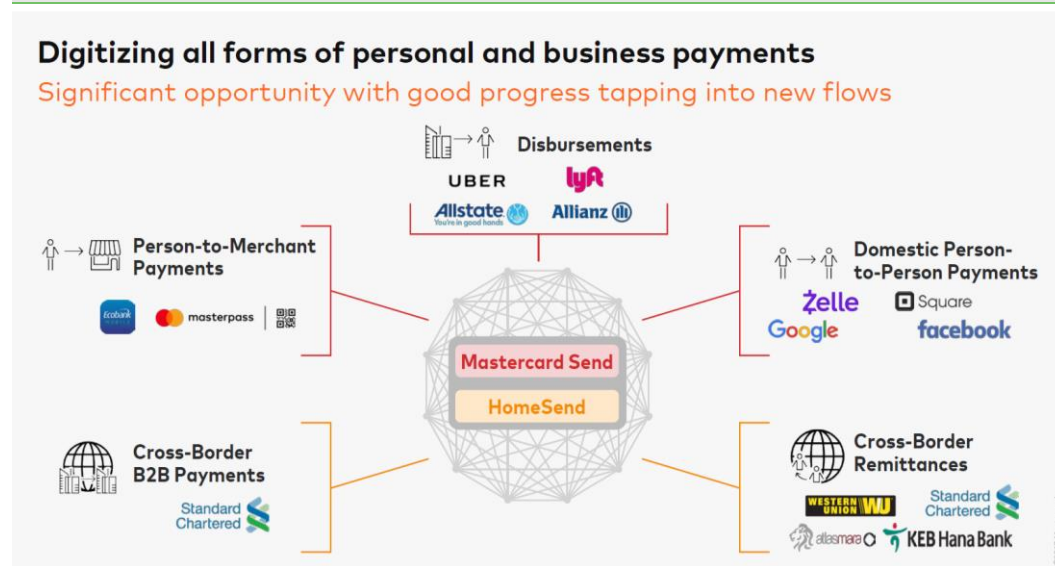
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<sup>2</sup> MTO: money transfer organisation



*the years become more and more of a nightmare to most people. There's lots of people you're buying from, lots of people you're paying to. Trying to reconcile those two together and find a way to ensure that complicated payments are reconciled appropriately and don't leave you with enormous issues at the end of the cycle as well as providing access to easy credit. That kind of stuff is what the Mastercard B2B Hub can help with..... I'm talking about capturing cross-border B2B payments. That's where Mastercard Send and HomeSend on the one hand combined with Vocalink on the other is to me the killer app".*

### Exhibit 3: HomeSend in context for Mastercard



Source: Mastercard (from Investment Community Meeting, 7 September 2017)

### Mastercard support is a key competitive advantage

Mastercard has well-established relationships with a large number of financial institutions globally, with relationships in 210 countries and territories. As suggested by the company's plans to expand the services it can offer, its salesforce is motivated to suggest solutions to its customer base that go further than traditional card processing. This gives HomeSend a substantial channel to market as well as providing a level of comfort to banking customers that know and trust Mastercard's capabilities.

### Mastercard signing banks up at pace

- **October 2017:** Mastercard confirmed that it had signed up 10 banks for the Mastercard Send Cross-Border service, which is powered by HomeSend, including Standard Chartered Bank and Atlas Mara. HomeSend also directly signed up KEB Hana (see more detail here: [Restructuring ongoing](#)). The company estimates that annual transaction volumes from these agreements could reach \$3-5bn in the next couple of years (ie average volume per bank of \$300-500m per annum).
- **December 2017:** eServGlobal confirmed that another five smaller banks had signed up to use the service, with average volumes in the range of \$30-50m per annum.
- **February 2018:** the company confirmed that the total number of banks signed up exceeded 20 and that two very large contracts were in the later stages of discussion.
- **March 2018:** HomeSend confirmed that one of the two contracts above had been signed – this is with one of the world's largest global financial institutions.

HomeSend is now focused on helping customers to go live and transition payment transactions onto the platform. To encourage this, it has invested in support to on-board customers and optimise their use of the platform.

## Competitive environment

There is a limited amount of direct competition for HomeSend. Earthport has developed a hub and spoke model for cross-border payments and has signed up several banks to use its platform, including Bank of America. In its most recent results, it reported that in the six months to 31 December 2017, it processed transactions worth \$8.7bn (+12% y-o-y) to generate revenues of £15.4m (+8% y-o-y). In our view, the main challenge to uptake is the inertia of banks to change from their existing cross-border arrangements.

There has been much discussion about the use of blockchain technology for cross-border transactions. Ripple has developed a blockchain-based system, similar to SWIFT, for cross-border processing and is working with a number of banks to trial it. We expect to see blockchain (ie distributed ledger technology) used alongside existing payment mechanisms as a way to bring efficiency to ledger management. Longer-term widespread use of blockchain technologies for cross-border payment processing would need to solve scaling issues (both in terms of processing speed and cost) as well as achieving buy-in from the majority of banks (as it would be a permissioned network).

## Recent investment round for HomeSend

HomeSend concluded another funding round in December 2017. A total of €10m was invested: BICS decided not to participate in this round, Mastercard invested €6.11m and eServGlobal €3.89m. This has resulted in a change in joint venture ownership as follows: Mastercard from 55% to 56.09%. eServGlobal from 35% to 35.69% and BICS from 10% to 8.21%. Proceeds are expected to be used for working capital and to accelerate the development of additional functionality to meet the JV's medium and long-term aims.

## Sensitivities

Our forecasts and the share price are sensitive to the following factors:

- **Demand:** the core business is reliant on selling extensions and upgrades to existing customers and winning business from new customers, the timing and size of which is difficult to predict.
- **Competition:** eServGlobal's core business competes with specialist mobile money software providers as well as larger mobile telecom-focused companies with wider service offerings.
- **HomeSend JV:** as a minority shareholder, eServGlobal has limited control over the joint venture. The ability of the JV to reach profitability will depend on adoption of the HomeSend platform by MTOs and banks, the timing of which is uncertain. eServGlobal may need to inject additional funds into the JV to support it while it works to reach break-even.
- **Economic and political risk:** the company's historic focus on developing countries has meant it is exposed to the risk of political or economic upheaval in those countries. The focus on expanding geographical exposure should diversify this risk.
- **Currency:** eServGlobal's functional currency is the euro, while it reports in Australian dollars, leading to sometimes material translational currency gains or losses. As it has employees in several countries, there is some mismatch between revenues and operating costs.
- **Regulation:** there is the risk that regulation related to mobile money could reduce demand for eServGlobal's mobile wallet software. We note that PayMobile 4.0 is designed to be flexible enough to allow for different regulatory requirements.



## Financials

### Review of results for 14 months ending 31 December 2017

The company recently reported results for the 14-month period ending 31 December 2017 (FY17), reflecting the change in year-end from 31 October to 31 December. The company had previously reported results for the 12 months ended 31 October (12M17) in December 2017. Revenues were in line with our forecast, but the company incurred additional charges relating to challenging legacy contracts, resulting in gross profit and adjusted EBITDA below our forecasts. For FY17, the write-down of work-in-progress was A\$3.5m. The provision against receivables was increased by A\$4.9m in FY17, A\$0.7m higher than for 12M17. In addition, cost of sales for the final two months of FY17 was higher than we had forecast. Adjusting out the WIP write-down, we calculate that gross margin was negative 8% for FY17, impacted by the delayed signing of contracts. So far in FY18, the company has closed contracts worth €5m that it had been expecting to close at the end of FY17. The company ended FY17 with a gross and net cash position of A\$10.8m, having paid down all remaining debt.

We have introduced forecasts for FY18, working on the assumption that the company is able to achieve revenue close to the break-even level of €12m. With orders worth €5m received in the first two months of the year (not all of which will be recognised in FY18), the company is making progress with its plan to generate revenues from its existing customer base.

#### Exhibit 4: Results highlights

A\$'000s	14 months to end CY17			FY18e
	Estimate	Actual	Change	
Revenues	12,159	12,240	0.7%	19,000
Gross profit	(2,171)	(4,489)	106.8%	6,591
Gross margin	-17.9%	-36.7%	(18.8%)	34.7%
Normalised gross profit	1,515	(991)	(165.4%)	6,591
Normalised gross margin	12.5%	-8.1%	(20.6%)	34.7%
Normalised EBITDA	(13,101)	(15,204)	16.0%	(409)
Normalised EBITDA margin	(107.7%)	(124.2%)	(16.5%)	(2.2%)
Normalised EBIT	(17,397)	(19,959)	14.7%	(3,779)
Normalised EBIT margin	(143.1%)	(163.1%)	(20.0%)	(19.9%)
Reported EBIT	(25,486)	(28,905)	13.4%	(3,929)
Normalised PBT	(25,031)	(27,540)	10.0%	(7,241)
Reported PBT	(33,119)	(36,486)	10.2%	(7,391)
Normalised net income	(25,492)	(28,188)	10.6%	(7,637)
Reported net income	(33,725)	(37,301)	10.6%	(7,791)
Normalised EPS	(3.77)	(4.17)	10.6%	(0.84)
Net debt/(cash)	(9,690)	(10,801)	11.5%	(7,318)

Source: eServGlobal, Edison Investment Research

## Valuation

As eServGlobal is made up of two separate businesses, one that is not controlled by eServGlobal management, we have used a sum-of-the-parts valuation to assess the business. We look at the core business on a peer group multiples basis. We use DCF analysis to calculate potential values for eServGlobal's share of the HomeSend JV.

### Core business

In the table below, we show financial and valuation metrics for a selection of companies that specialise in selling mobile-related software. Median EBITDA margins are forecast to reach 13.3% this year and 14.3% next year, compared to our forecast for eServGlobal to be marginally loss-making in FY18e. We apply an EV/sales multiple of 0.55x FY18e revenues (a discount of 50% to

peers to reflect the profitability profile), which results in an enterprise value of A\$10.5m (0.64p per share).

**Exhibit 5: Mobile software companies: valuation and financial performance**

	Market cap (m)	CCY	Rev growth		EBITDA margin (%)		EBIT margin (%)		EV/Sales (x)		EV/EBITDA (x)	
			CY	NY	CY	NY	CY	NY	CY	NY	CY	NY
CLX Technology	3624	SEK	23%	11%	8.6	9.8	4.9	6.6	1.1	0.9	12.3	9.7
Optiva	238	CAD	-19%	-1%	-15.0	0.7	N/A	N/A	1.2	1.2	N/A	173.4
Synchronoss	288	USD	23%	-29%	19.1	25.1	8.9	7.4	0.6	0.9	3.2	3.4
Verifone Systems	2528	USD	-4%	5%	16.5	16.6	14.2	14.9	1.8	1.7	10.9	10.4
<b>Mean</b>			<b>6%</b>	<b>-3%</b>	<b>7.3</b>	<b>13.0</b>	<b>9.3</b>	<b>9.6</b>	<b>1.2</b>	<b>1.2</b>	<b>8.8</b>	<b>49.2</b>
<b>Median</b>			<b>10%</b>	<b>2%</b>	<b>12.5</b>	<b>13.2</b>	<b>8.9</b>	<b>7.4</b>	<b>1.1</b>	<b>1.1</b>	<b>10.9</b>	<b>10.1</b>

Source: Bloomberg (as at 21 May 2018)

## HomeSend

In the table below, we show the history of disclosure relating to the valuation of the HomeSend joint venture. We note that eServGlobal has participated in two funding rounds since the inception of the JV, putting in €3.5m in 2016 and a further €3.89m last month. When the company commissioned a valuation in September 2015, a 20% minority interest (MI) discount was applied to the resulting valuation – we have used this discount for all of the non-book value based valuations.

**Exhibit 6: HomeSend valuation history**

	Value	eServGlobal's stake	After MI discount		Source
	€m	€m	€m	A\$m	
Apr 2014: inception of JV	60.0	21.0	16.8	24.9	JV agreement
Sep 2015: company valuation	67.1	23.5	18.8	29.9	eServGlobal – DCF (WACC 13.5%)
Oct 2017: book value				21.6	eServGlobal - initial value of stake less losses to date plus subsequent funding rounds
Dec 2017: post funding round	56.0	20.0	16.0	24.6	Mastercard
Dec 2017: book value				26.3	eServGlobal - initial value of stake less losses to date plus subsequent funding rounds

Source: eServGlobal, Edison Investment Research

The company has stated that it does not agree with Mastercard's valuation of the JV in the most recent round, and believes it significantly undervalues it.

**Exhibit 7: Reverse sum-of-the-parts of eServGlobal**

	£m	A\$m
Market cap	87.2	156.8
Net debt/(cash)		(10.8)
Enterprise value		146.0
Less core business (based on peer group EV/sales)	5.8	10.5
Implied value of HomeSend stake (35.7% interest in JV)	75.4	135.6
Implied value of HomeSend (100% of joint venture)		379.8
Less value of remittances business (based on DCF)		154.0
Implied value attributed to banking business		225.8

Source: Edison Investment Research

In the table above, we show a reverse sum-of-the-parts valuation. This takes the company's current market cap, adjusts for the net cash position at the end of CY17, and removes our estimate for the valuation of the core business. This leaves the value of eServGlobal's 35.69% stake in HomeSend. We then value the existing remittances business within HomeSend: we have constructed a DCF that assumes that HomeSend grows its share to 2% of the global remittance market over the next 10 years, that HomeSend charges 2.5% of the transaction value and earns 20% gross margins. We note that in two corridors, HomeSend has already achieved a 10% market share of inbound remittances. We assume that it moves to EBITDA profitability in FY19 and ultimately achieves operating margins of 13%. Based on working capital/sales and capex/sales both reducing down to 2% over the period, and using a WACC of 13% with a long-term growth rate of 2%, we value these cash flows at A\$154.0m.

This leaves a further A\$225.8m/US\$169.8m which we estimate would be generated by processing banking payments on the platform. We assume that the bulk of fixed costs will be covered by the remittances business and that banking payments will also generate a 20% gross margin, with a further 5% of revenues spent on operating costs and a 25% tax rate. We therefore estimate that processing US\$500m per annum in banking transactions value in perpetuity could be worth US\$16.2m/A\$21.5m to HomeSend. On this basis, we estimate that HomeSend is being given credit for processing banking transactions worth c \$5bn, a tiny fraction of the cross-border payments market. Of the banking customers signed to date, the first 10 have average annual volumes of \$300-500m (total addressable market \$3-5bn pa) and the next five have average volumes of \$30-50m pa (total addressable market of \$150-250m pa). Progress in transitioning these banks' volumes onto the HomeSend platform will be key to realising the value of the JV. The company has noted that it expects an inflection point in volumes in the short-term, although the precise timing is uncertain.

**Exhibit 8: Financial summary**

	A\$'000s	2012	2013	2014	2015	2016	2017	2017*	2018e
Year end 31 October/31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>									
Revenue		28,070	31,003	31,261	25,866	21,577	10,791	12,240	19,000
Cost of Sales		(12,267)	(11,789)	(13,359)	(20,608)	(15,490)	(13,509)	(16,729)	(12,409)
Gross Profit		15,803	19,214	17,902	5,258	6,087	(2,718)	(4,489)	6,591
EBITDA		(1,936)	1,683	2,571	(10,449)	(6,982)	(11,709)	(15,204)	(409)
Operating Profit (before amort acq intang, SBP and except.)		(7,277)	(660)	1,987	(12,469)	(10,039)	(15,391)	(19,959)	(3,779)
Amortisation of acquired intangibles		0	0	0	0	0	0	0	0
Exceptionals		(6,485)	5,997	28,735	(12,539)	(3,533)	(7,905)	(8,649)	0
Share-based payments		(624)	(456)	(438)	(54)	(75)	(160)	(297)	(150)
Operating Profit		(14,386)	4,881	30,284	(25,062)	(13,647)	(23,456)	(28,905)	(3,929)
Income from associate		0	0	(2,275)	(3,831)	(4,638)	(4,478)	(5,491)	(3,462)
Net Interest		(1,016)	(386)	(254)	(1,356)	(2,861)	(2,302)	(2,090)	0
Profit Before Tax (norm)		(8,293)	(1,046)	(542)	(17,656)	(17,538)	(22,171)	(27,540)	(7,241)
Profit Before Tax (FRS 3)		(15,402)	4,495	27,755	(30,249)	(21,146)	(30,236)	(36,486)	(7,391)
Tax		(187)	5,879	(13,515)	(2,125)	(596)	(592)	(681)	(200)
Profit After Tax (norm)		(5,805)	(732)	(379)	(14,125)	(14,030)	(22,605)	(28,054)	(7,437)
Profit After Tax (FRS3)		(15,589)	10,374	14,240	(32,374)	(21,742)	(30,828)	(37,167)	(7,591)
Average Number of Shares Outstanding (m)		196.8	241.1	253.1	264.0	366.6	640.2	676.4	906.9
EPS - normalised (c)		(3.01)	(0.36)	(0.20)	(5.41)	(3.88)	(3.53)	(4.17)	(0.84)
EPS - FRS 3 (c)		(7.98)	4.25	5.57	(12.33)	(5.98)	(4.82)	(5.51)	(0.86)
DPS (c)		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross Margin (%)		56.3%	62.0%	57.3%	20.3%	28.2%	(25.2%)	(36.7%)	34.7%
EBITDA Margin (%)		(6.9%)	5.4%	8.2%	(40.4%)	(32.4%)	(108.5%)	(124.2%)	(2.2%)
Operating Margin (before am and except.) (%)		(25.9%)	(2.1%)	6.4%	(48.2%)	(46.5%)	(142.6%)	(163.1%)	(19.9%)
<b>BALANCE SHEET</b>									
Fixed Assets		16,303	14,330	43,431	42,928	33,274	27,567	31,373	26,931
Intangible Assets		9,386	3,523	9,011	6,939	5,598	4,411	3,856	2,856
Tangible Assets		912	482	3	84	32	136	127	147
Other Fixed Assets		6,005	10,325	34,417	35,905	27,644	23,020	27,390	23,928
Current Assets		18,136	38,855	30,761	34,895	28,240	40,361	16,499	16,643
Stock		158	74	173	66	72	110	139	139
Debtors		14,094	21,846	26,811	24,403	17,976	6,870	4,181	7,808
Cash		3,794	4,909	3,679	4,976	9,375	33,255	10,801	7,318
Other		90	12,026	98	5,450	817	126	1,378	1,378
Current Liabilities		(12,934)	(15,082)	(18,033)	(25,520)	(14,469)	(11,812)	(10,810)	(14,053)
Creditors		(11,665)	(11,932)	(13,010)	(22,285)	(14,189)	(11,812)	(10,757)	(14,000)
Taxation & social security		(69)	(150)	(2,023)	(235)	(280)	0	(53)	(53)
Short term borrowings		(1,200)	(3,000)	(3,000)	(3,000)	0	0	0	0
Long Term Liabilities		(6,431)	(749)	(865)	(19,532)	(12,649)	(20,392)	(777)	(777)
Long term borrowings		(6,000)	0	0	(16,531)	(11,759)	(19,075)	0	0
Other long term liabilities		(431)	(749)	(865)	(3,001)	(890)	(1,317)	(777)	(777)
Net Assets		14,989	37,154	55,070	32,359	33,823	35,718	36,158	28,417
<b>CASH FLOW</b>									
Operating Cash Flow		(11,901)	(7,207)	(5,810)	(12,130)	(10,712)	(9,492)	(12,630)	(793)
Net Interest		(974)	(580)	(271)	(423)	(175)	0	(2,735)	0
Tax		(7,813)	(1,088)	2,018	(3,148)	(1,159)	(719)	(132)	(300)
Capex		(1,966)	(1,950)	(6,403)	(2,921)	(1,583)	(2,351)	(2,821)	(2,390)
Acquisitions/disposals		23,307	0	5,418	0	5,133	0	0	0
Financing		(77)	16,140	3,964	4,365	15,929	32,007	32,286	0
Dividends		(111)	0	(146)	0	0	(579)	(581)	0
Net Cash Flow		465	5,315	(1,230)	(14,257)	7,433	18,866	13,387	(3,483)
Opening net debt/(cash)		3,871	3,406	(1,909)	(679)	14,555	2,384	2,384	(10,801)
HP finance leases initiated		0	0	0	0	48	0	0	0
Other		0	0	0	977	(4,690)	2,302	202	0
Closing net debt/(cash)		3,406	(1,909)	(679)	14,555	2,384	(14,180)	(10,801)	(7,318)

Source: eServGlobal, Edison Investment Research. Note: \*14-month period ended 31 December.

Contact details	Revenue by geography
eServGlobal 224 Avenue Pierre Brossolette 92245 Malakoff Cedex, France www.eservglobal.com	N/A
Management team	
<b>Executive chairman: John Conoley</b>	<b>CFO: Andrew Hayward</b>
John began his career in the IT industry with IBM in 1983, and worked in a range of industries in technical, sales and marketing roles. Since then, he has held general management and director-level roles in small and medium-sized private and public companies. His most recent roles include non-executive director with IT security company Vistorm, head of the £1.6bn B2B Energy Division at Eon and, most recently, CEO of mobile device company Psion, an international company listed in the UK.	Andrew is an experienced finance executive with senior strategic advisory and investor relations experience. Prior to joining eServGlobal, he held the role of Head of Finance at Hurricane Energy plc, in which he worked closely with the investment community in London, overseeing a successful IPO while also driving the financial growth of the company. Previously he has worked in various roles at PwC, latterly within the Corporate Finance Lead Advisory practice.
<b>COO: James Hume</b>	
James has more than 15 years' extensive experience in developing and delivering commercial enterprise software for the telco and financial services worlds. His background includes customer-facing roles in various international markets, working closely with multiple stakeholders to deliver strategic and dynamic technology solutions.	
Principal shareholders	(%)
Lombard Odier	20.80
L&G	13.74
Canaccord Genuity	11.95
Prudential	9.47
Blue Lake Partners	4.84
Commonwealth Bank of Australia	4.54
Acorn Capital	3.55
Companies named in this report	
CLX Technology, Earthport, Mastercard, Optiva, Synchronoss, Verifone Systems	

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